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STAFF APPRAISAL REPORT

KOREA

INDUSTRIAL FINANCE PROJECT

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Projects Department  
East Asia and Pacific Regional Office

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CURRENCY EQUIVALENTS  
As of December 31, 1982

Currency Unit - Korean Won (W)

\$1	=	W 750
\$1 million	=	W 750 million
W 1	=	0.0013
W 1 million	=	\$1,333
W 1 billion	=	\$1.33 million

ACRONYMS

ADB	-	Asian Development Bank
BOK	-	Bank of Korea
CNB	-	Citizens National Bank
DMB	-	Deposit Money Bank
ERR	-	Economic Rate of Return
Exim Bank	-	Export/Import Bank of Korea
FRR	-	Financial Rate of Return
GNP	-	Gross National Product
GRA	-	Guarantee Release Agreement
ICB	-	International Competitive Bidding
IFC	-	International Finance Corporation
IFD	-	Industrial Finance Debenture
KAIST	-	Korea Advanced Institute of Science and Technology
KDB	-	Korea Development Bank
KDFC	-	Korea Development Finance Company
KDLC	-	Korea Development Leasing Corporation
KIFC	-	Korea Investment and Finance Corporation
KLB	-	Korea Long-Term Credit Bank
KTAC	-	Korea Technology Advancement Corporation
KTDC	-	Korea Technology Development Corporation
LIBOR	-	London Inter-Bank Offered Rate
LTCB	-	Long-Term Credit Bank
MOF	-	Ministry of Finance
NIF	-	National Investment Fund
PCR	-	Project Completion Report
SAL	-	Structural Adjustment Loan
SMIB	-	Small and Medium Industry Bank
SMIPC	-	Small and Medium Industry Promotion Corporation

FISCAL YEAR

January-December

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## KOREA

### INDUSTRIAL FINANCE PROJECT

#### I. THE INDUSTRIAL SECTOR

1.01      Contribution to Economic Growth. In the space of only two decades, Korea has transformed itself from an impoverished, largely agriculture-based country into a middle-income industrializing nation. Per capita GNP (at 1980 prices) increased from US\$477 in 1962 to US\$1,627 in 1981. The manufacturing sector has been the engine of Korea's economic growth with an annual growth rate of 15.5% (in constant prices) between 1960 and 1981. The share of manufacturing value added in GNP increased from 14% to 30% over this period and created approximately 2.5 million new jobs, representing about 37% of total incremental employment. In 1981, manufacturing employment totalled 2.9 million and accounted for 20% of the total employed population, compared to 13% in 1970.

1.02      Export Orientation. Korea's success in economic development has been largely based on a strategy of export promotion with emphasis on manufactured exports. Total commodity exports in 1962 amounted to only US\$55 million, of which manufactured goods accounted for only about 27%. By 1981, total commodity exports (in current prices) had increased to US\$21.3 billion, of which manufactured products accounted for 93%. The average annual growth rate of manufactured exports declined in real terms from 33.8% during the period 1972-76 to 11.2% over the period 1977-81, but remained significantly above the average real growth in GNP of 5.7% p.a. over the latter period. After an increase in manufactured exports of only 1% in real terms in 1979, as the Won was becoming substantially overvalued, growth in 1980 and 1981 reached 13.4% and 18.8% respectively, following the continuing adjustments in the parity of the Won in 1980-81. In 1982, manufactured exports increased by only 3% in real terms, reflecting the stagnation in international markets.

1.03      The composition of manufactured exports has changed significantly over the last decade, reflecting changes in Korea's comparative advantage. The share of machinery in total exports increased from 9% in 1970 to 29% in 1981, and basic metals from 2% to 9%. There has been some reduction in the share of textiles and footwear exports, but these products still account for around 35% of total exports. Wood and wood products declined more markedly from 11% of total exports in 1970 to 2% in 1981.

1.04      Structural Change in Manufacturing. During the early phase of industrialization, spanning the 1960s and early 1970s, manufactured exports were concentrated largely on light industrial goods (e.g., textiles,

apparel, and wood projects) in which Korea demonstrated a comparative advantage based on low cost and efficient labor. Government policies emphasized the promotion of exports through tariff exemptions on materials and equipment to be used directly or indirectly for export production and through financial incentives which provided exporters with automatic access to short-term export credits at subsidized interest rates. These subsidies approximately compensated exporters for the relatively low average levels of protection afforded to production for the domestic market./1

1.05 From the early 1970s, however, increased importance was attached to industrial deepening and diversification, with emphasis on the development of heavy and chemical industries. This shift in priorities reflected recognition that Korea was gradually losing its comparative advantage in export industries based on low cost labor and that it should begin to develop more sophisticated products relying on a more skilled labor force with higher technical capabilities. Numerous special laws were implemented for the promotion of priority industries. Preferential, low-cost financing was made available, through the National Investment Fund (NIF) and other special funds, and selected industries received generous tax exemptions and concessions.

1.06 The composition of manufacturing showed a marked shift in favor of heavy industry /2 whose share of total manufacturing value added increased from 41.8% in 1970 to 51.6% in 1980. The most significant gains have been registered by the machinery industries, which accounted for less than 10% of manufacturing value added in 1970 but more than one quarter in 1980. The share of chemical industries, however, declined from about 30% of manufacturing value added to 18.5% over this period. Light industries have declined steadily since 1970, with the sharpest decline recorded in the food, beverage and tobacco industries. Textiles have maintained a 15-20% share of total manufacturing value added.

1.07 Recent Developments. Korea has been affected, like most countries, by the recent world-wide recession. The external problems caused by the oil-price increase of 1979, the rapid increase in international interest rates and the severe decline in growth of world trade in manufactures have also been accompanied by adverse developments in the domestic environment. By the late 1970s, Korea was already beginning to suffer from strains caused by sustained rapid economic growth. The rate of increase of wholesale prices accelerated from 12% in 1978 to 39% in 1980. There was also

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/1 See for example, Industrial Policy and Development in Korea, IBRD Staff Working Paper No. 263, August 1977.

/2 Includes basic metals, machinery and chemical industries.

increasing concern about the impact of the overly ambitious investment programs in heavy and chemical industries which helped to fuel the inflationary spiral and led to a sharp rise in capital intensity of output and to overcapacity. In addition, the unfavorable weather of 1980 led to a decline in agricultural output of about 22%. Between mid-1979 and 1981, GNP was stagnant, real per capita income, adjusted for terms of trade, declined by about 10% and the rate of unemployment increased significantly.

1.08 Value added in the manufacturing declined in 1980 by 1% in real terms before recovering somewhat in 1981 with a growth of 7.1%. The weak international environment held the manufacturing sector growth rate at 4.3% in 1982. Total manufacturing employment fell from 3.1 million in 1979 to 2.9 million in 1981 and improved to about 3 million in 1982.

1.09 Gross fixed capital formation in manufacturing, after increasing in real terms by more than 60% in 1978 and almost 16% in 1979, fell by 36% in 1980 and by a further 5% in 1981.<sup>/1</sup> Despite this slowdown in the last two years of the Fourth Five-Year Plan, manufacturing investment during the Plan period (1977-81) reached W 10.58 trillion compared to a planned level of W 8.92 trillion. Heavy and chemical industries, mainly primary metals and machinery, accounted for almost all of the additional investment but, as noted earlier, some of these investments led to severe problems of overcapacity in industries such as heavy engineering and petrochemicals. Light industries did not share equally in this investment boom. In fact, investment in textile industries, where substantial investments are needed to upgrade quality and to move into more technologically sophisticated areas of production, fell more than 10% below plan targets. The combination of high levels of investment in the latter half of the 1970s and the subsequent economic recession resulted in a sharp fall in average capacity utilization in the manufacturing sector, from a high of 88% in 1978 to 73% in 1980, with no significant improvement in 1981 and 1982. For general machinery industries, capacity utilization fell from 75% in 1979 to less than 50% in 1980 and 1981.

1.10 Financial Structure of Enterprises. Profitability of the non-financial corporate sector declined drastically in 1979-80, and recovered only weakly in 1981. This decline was especially severe in manufacturing, which experienced losses in 1980 and 1981, as shown in the table below. Based on the income statements of stock exchange listed firms for the first six months of 1982, the profitability of non-financial enterprises declined significantly compared to the first half of 1981. Profitability has apparently improved in the second half of the year, due to lower nominal interest charges on both domestic and foreign debt and some recovery in domestic demand.

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<sup>/1</sup> Preliminary estimates for the first three quarters of 1982 show an annualized real growth of 7.5%.

PROFITABILITY AND INDEBTEDNESS IN MANUFACTURING  
(1978-1981)

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	1978	1979	1980	1981
Net profits as % of net sales	2.17	1.53	-1.06	-0.72
Equity as % of total assets	21.40	21.00	17.00	18.00

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Source: BOK

1.11 Corporate debt/equity ratios in the manufacturing sector deteriorated significantly during 1979-81 (as shown in the above table), aggravating already high levels of indebtedness. High corporate indebtedness remained manageable during the period 1970-79 when a rather low and stable lending rate kept borrowing costs at about 5 to 6% of net sales. Indebtedness became a serious problem when interest rates rose sharply (in 1979-80) and inflation fell (in 1981-82). This situation coincided with a fall in profits due to the prolonged recession and a tight monetary policy initiated by the Government. As a result, the ability of the corporate sector to mobilize additional debt was curtailed at the same time as the burden of financial charges increased. Firms were generally unable to meet rising borrowing costs out of their cash operating profit. Additional borrowings to meet interest payments further increased the cash flow deficits which needed to be financed. The tight liquidity situation of the corporate sector persisted until mid-1982 when lending rates were lowered by about 40% compared to rates prevailing in 1981. This lowering of borrowing costs improved corporate profitability and helped ease the tight liquidity position of many firms. However, corporate indebtedness remains high in Korea by international standards.

1.12 Proper revaluation of assets to adjust fully for inflation would substantially improve the debt/equity structure of the corporate sector although indebtedness would still be among the highest in the world.<sup>/1</sup> Similarly, profitability would be better than published accounts indicate, though it would still be lower in 1979-81 than in prior years. In effect, short maturities and high nominal interest rates have made corporations inherently illiquid, even where, on an inflation-adjusted basis, they may

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<sup>/1</sup> Bank estimates indicate an inflation-adjusted average debt/equity ratio of around 1.5:1 compared with a reported average ratio of around 4:1. In Japan, where debt/equity ratios are high by international standards, adjusted debt/equity ratios average less than 1:1.

have had relatively low debt/equity ratios and reasonable profits. Although corporate profitability may prove to have been worse in 1982 than in prior years (on an inflation-adjusted basis), corporate liquidity and cash flows are likely to have improved due to the decline in nominal interest rates.

1.13 Overall, Korean firms have suffered from a rather unique combination of high indebtedness, declining profitability and severe illiquidity. Nevertheless, financial distress appears to be highly concentrated in large enterprises which invested in the priority sectors for which, in the past, the Government has provided almost unlimited access to low cost domestic funds and to guaranteed foreign credits. In general, small and medium enterprises are less leveraged than larger enterprises and relatively less affected by liquidity problems.

1.14 Policy Responses. The increased emphasis placed by the Government on the development of more sophisticated industrial activities during the 1970s reflected an awareness of Korea's declining comparative advantage in traditional, labor-intensive industries. In retrospect, however, the growth in manufacturing investment in large, capital-intensive industries was too rapid, and paid inadequate attention to technical, engineering and marketing considerations. The associated neglect of light industries retarded their progress in updating product quality and technological sophistication and harmed the competitiveness of traditional exports.

1.15 The Government has recognized these problems and that its extensive role in directing the course of industrial development (though selective directed credit allocation, discriminatory fiscal incentives and protection policies) is no longer appropriate given the increasing complexity and sophistication of Korea's industrial sector. Consequently, it has instituted a number of policy adjustments to increase efficiency of resource allocation by placing greater emphasis on market forces. In the area of industrial and trade policies, the Government, in 1981, outlined a number of important measures and a medium-term structural adjustment program in a Letter of Development Policy for 1982-86. The Letter provided the basis for the Bank's first Structural Adjustment Loan (SAL) of US\$250 million which was approved in December 1981.<sup>/1</sup> The main features of the structural adjustment program relating to the manufacturing sector include import liberalization and tariff reform; reform of industrial incentives; development of programs for restructuring and consolidation of large industries currently suffering from substantial excess capacity; and the strengthening of project appraisal capacity in government agencies, especially for large scale projects requiring government assistance. The Government has also initiated a reform of the financial system which aims at improving resource allocation and increasing the efficiency of financial intermediaries (paras. 2.16 to 2.18).

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<sup>/1</sup> See IBRD President's Report No. P3156-KO, November 17, 1981.

1.16 Prospects. The Fifth Five-Year Plan projects an average annual GNP growth rate of 7.5% in real terms over the period 1982-86 with investment growing at an average rate of 9% p.a. Over the same period, the industrial sector is expected to grow at 11% p.a. The basic objective of the Fifth Plan is to pursue the process of structural adjustment with greater reliance on market forces. The Government's strategy is sound, but the transition is going to be difficult and the GNP growth target may not be achieved. In any case, during the 1980s, Korea will have to adjust to a lower growth rate than in the past two decades and find ways of increasing the employment intensity of its growth to keep unemployment rates at acceptable levels. The projected export growth of 11% does not appear unreasonable in term of the country's past performance, but the near-term prospects are less favorable than assumed in the Plan. Also, as the leading edge of export growth swings increasingly from traditional, labor-intensive products to higher quality and more technologically advanced products, the need to focus on the difficult task of upgrading technical, technological and marketing capabilities becomes more urgent. Consequently, the realization of export projections and, ultimately, of overall growth projections, will depend on the success of policies to improve export competitiveness.

## 2. THE FINANCIAL SECTOR

2.01 The Korean financial system has grown rapidly in the 1970s. Average consolidated assets of the monetary system (which comprises the Central Bank and the deposit money banks) and other financial institutions increased from 51.1% of GNP in 1972 to 62.8% in 1979. Growth of the system accelerated in 1980-81 despite the onset of a severe economic recession, with average financial assets reaching 85.4% of GNP in 1981. The late 1970s also saw a significant development of direct financing in the form of commercial paper transactions and corporate debenture issues in the securities market. These developments reflected the diversification of the Korean economy and the increasing sophistication of the financial sector.

### Institutional Sources of Funds

2.02 Deposit money banks (DMBs), comprising non-specialized and specialized /1 commercial banks, form the core of the financial system with about 57% of total assets, a ratio practically unchanged since 1975 (Annex 1,

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/1 The six specialized banks were created by the Government to service particular sectors of the economy such as small industries, exporters, housing, etc. The specialized banks include the Korea Exchange Bank (KEB), the Small and Medium Industry Bank (SMIB), the Citizens National Bank (CNB), the Housing Bank, the Agricultural Cooperatives and the Fisheries Cooperatives.



Table 1). The share of the Central Bank (Bank of Korea) has declined from 23% in 1975 to 14.0% in 1981, while the assets of non-bank financial intermediaries (NBFI) increased rapidly from 19.6% of total assets to 29.4% as shown hereunder.

STRUCTURE OF THE FINANCIAL SYSTEM, /a 1975-81  
(in Won trillion)

	1975		1981		Average annual rate of growth 1975-81/ <u>c</u>
	Assets/ <u>b</u>	%	Assets/ <u>b</u>	%	
<u>The Bank of Korea</u>	2.2	23	8.6	14	5.2
<u>Deposit Money Banks (Banking System)</u>	5.5	57	34.7	57	13.6
Commercial banks	3.6	37	21.1	34	12.2
Specialized banks	1.9	20	13.6	23	15.9
<u>Non-Bank Financial Institutions</u>	1.9	20	18.0	29	22.0
Development banks	0.9	9	6.7	11	16.4
Others	1.0	11	11.3	18	26.5
Total	<u>9.6</u>	<u>100</u>	<u>61.3</u>	<u>100</u>	<u>14.0</u>

/a Excluding acceptances and guarantees.

/b In current prices.

/c In real terms (1975 prices).

2.03 The Banking System. The group of non-specialized commercial banks remains the most important within the financial system although its assets have declined marginally from 37% of total financial assets in 1975 to 34% in 1981. It consists of five city banks /1 with a nationwide network of branches, ten private local banks with regional operations, and branches of foreign commercial banks. Foreign bank branches have had the most rapid growth with aggregate assets growing at a rate of 27.6% in real terms over the period 1975-81; however, they have limited capabilities in mobilizing domestic savings and rely primarily on foreign resources. On the other hand, domestic deposits are the major source of funds for the local and city banks. In 1981, deposits accounted for 61% of their total liabilities and equity. Other sources of funds for the local and city banks consist primarily of Central Bank rediscounts and foreign borrowings.

/1 In addition, two new joint venture banks have been established in 1982-83.

2.04 As a group, specialized commercial banks have gained in importance within the financial system, rising from 20% of total assets in 1975 to 23% in 1981. Unlike the non-specialized banks, they are not established under the General Banking Act and therefore remain outside the jurisdiction of the Central Bank, except for their deposit taking activities. The specialized banks were each established under separate legislation and are supervised directly by the Ministry of Finance. Domestic currency deposits accounted for 46% of the aggregate liability and equity resources of specialized banks at year-end 1981. Foreign borrowings are their next largest source of funds followed by borrowings from the Central Bank and from the Government. The Korea Exchange Bank is the largest of the specialized banks accounting for about 38% of their combined assets; it specializes in foreign trade financing and supports its operations primarily through overseas borrowings and deposits.

2.05 Commercial banks, non-specialized and specialized, jointly account for approximately 70% of total lending to the manufacturing sector in Korea (Annex 1, Table 2). Non-specialized commercial banks remain the most important source despite a decline from 63.5% of the net increase in total manufacturing sector credit in 1975-78 to 49.6% in 1979-81. Over the same period, the three specialized banks most active in the manufacturing sector (i.e., SMIB, CNB and KEB) have increased their combined share of manufacturing sector lending from 16% to 19.7%. As of December 31, 1981, only 27% of non-specialized commercial bank loans outstanding to manufacturing were for equipment finance as the bulk of their lending was for working capital finance. By contrast, the three specialized banks mentioned above channel close to 40% of their manufacturing sector lending in the form of equipment financing.

2.06 Nonbank Financial Intermediaries (NBFI). Nonbank intermediaries comprise (a) development banks; (b) trust accounts; (c) insurance companies; (d) shortterm finance companies; (e) mutual savings and finance companies; (f) postal savings; (g) securities companies; and (h) merchant banks. The rapid growth of NBFI assets in recent years is due to the emergence of new financial instruments whose supply is limited to specific institutions. This is particularly so for trust accounts, insurance companies, investment and finance companies, and mutual savings finance companies. While they had an aggregate share of only 8.5% of total assets of the financial system in 1975, by year-end 1981, their share had risen to 16%. This growth was primarily in response to the growing demand for savings instruments with higher yields than those offered by banks.

2.07 Within the NBFIs, the three Korean development banks remain the dominant group, with aggregate assets representing 11.1% of the financial system in 1981. Two of these banks, the Korea Long-Term Credit Bank (KLB) and the Korea Development Bank (KDB), have been active borrowers of the World Bank since 1969 and 1975, respectively. Both are important sources of

equipment finance for the manufacturing sector with KDB and KLB accounting for 18.6% and 5.3%, respectively, of outstanding equipment financing at end-1981. The bulk of the Bank Group's industrial lending is channelled through them. With total assets of \$7.8 billion, KDB is the single largest financial institution in Korea. It accounted for 8.3% of total financial assets in 1981, down slightly from 8.8% in 1975. Despite a rapid real growth of nearly 26% p.a. in 1975-81, KLB is a much smaller institution than KDB; its assets represented 1% of total financial assets as of December 31, 1981. The Korea Export Import Bank (Exim Bank), the third Korean development bank, has experienced an extremely rapid growth of over 50% p.a. since its establishment in 1976. Its development is linked to the expansion of Korean exports of machinery and ships for which Exim Bank provides long-term suppliers' credits. At end-December 1981, Exim Bank accounted for 14.2% of all outstanding equipment loans to the manufacturing sector.

#### Other Sources of Funds

2.08 Curb-Market. The curb market is a large source of noninstitutional financing. Recent estimates of its size range from W 1 to 1.5 trillion (\$1.3 to \$2 billion), approximately 6% of total domestic credit to the private sector. Existence of the informal curb market as a source of short term finance is largely in response to credit needs unmet by formal credit institutions. To this extent, the curb market operates as a "safety valve" providing relief from supply constraints in the formal credit sector where rates and credit flows are government controlled. For this reason, attempts to suppress the curb market have had little effect in the past. The most recent attempt, in late 1982, caused serious liquidity problems in the corporate sector which were partly compensated by an increase in the supply of institutional credit. In practice, a significant proportion of curb market transactions take place through institutions operating in the formal market such as banks and short term finance companies. To this extent, financial sector assets and liabilities overlap, in part, with curb market transactions. Interest rates prevailing in the curb market have declined substantially in recent months to about 1.5% per month in early 1983.

2.09 Overseas Borrowings. Statistics on the net foreign currency fund flows to the manufacturing sector are shown in Annex 1, Table 3. Direct overseas borrowings by Korean firms and foreign trade credits provided substantial resources to the industrial sector in the period 1979-81 with a net inflow equivalent to 26.5% of net outlays by domestic institutions. However, this represented a significant slowdown compared to the period 1975-78, when net foreign capital inflows reached 81.7% of net institutional outlays to manufacturing. Availability of these foreign credits is usually dependent upon a guarantee issued by a domestic financial institution. The ratio of outstanding guarantees to total financial sector assets has declined from 32% in 1975 to 26% in 1981, reflecting, as mentioned above, a relative decline in the reliance of Korean firms on direct overseas borrowings.

2.10 Capital Market. Despite a temporary stagnation in 1980-81, the Korean capital market has become an important source of direct fund mobilization for the corporate sector. Aggregate resources exceeding \$1 billion annually have been mobilized by the manufacturing sector in the securities market over the period 1979-81. Annex 1, Table 3 shows that, in response to the low profitability of firms, the stock market was very sluggish in 1980-81 with new issues by manufacturing enterprises averaging less than \$50 million per annum, less than 15% of the amounts raised during the period of peak activity in 1979. On the other hand, the corporate bond market has been booming. Bond issues by manufacturing sector firms averaged \$1 billion per annum in 1979-81. Despite a slight decline in 1981, corporate bonds issued by manufacturing firms reached about W 690 billion, equivalent to 22% of the net increase in manufacturing sector credit by the financial system. The rapid growth of the corporate bond market is due both to the limited availability of credit from financial institutions at the low rates legislated by Government and to the high yields of corporate bonds compared to the bank deposit rate./1

#### Government Controls and Intervention

2.11 The rapid development of the Korean economy over the past 20 years was based on highly interventionist government policies. While industrial growth was reliant on the private sector, investment priorities were determined by the Government. The Government also committed the resources required for implementation of the priority investments, including financing on preferential terms, channelled through the development banks and the specialized and non-specialized commercial banks. Strict control over resource allocation by the financial system was a major tool in the Government's development strategy.

2.12 Government control of the financial system was effected through various means including restrictions on the establishment of new financial institutions, virtual control of ownership over the entire banking sector and the main development banks (excluding, however, the Korea Long-Term Credit Bank), detailed regulation of bank management and staffing decisions, determination of interest rates, and selective credit controls for allocating resources. The latter two instruments of government control have proved to be extremely constraining factors affecting the overall efficiency of financial intermediaries in Korea.

2.13 Savings Mobilization. Since 1965, government interest rate policy has aimed at maintaining positive real deposit rates to encourage mobilization of financial savings. This policy has been maintained to the present

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/1 In January 1983, corporate bonds yielded 15-16% compared to a time deposit rate of 8%.

date with the exception of the periods 1974-75 and 1980-81 when inflationary outbursts following the two oil shocks brought deposit rates to a negative level in real terms. The policy of maintaining positive real deposit rates contributed to the rapid accumulation of financial assets described above and to the high domestic savings performance of Korea during that period. By 1981, the ratio of  $M_2$  and financial assets to GNP reached 32.7% and 85.4%, respectively. Even during the 1975-80 period characterized by a high level of gross capital formation (30% of GNP), domestic savings financed over 80% of investment. Although significant reliance on foreign borrowings was necessitated by the high level of investment, the favorable performance of domestic savings kept such borrowings within reasonable limits.

2.14 Resource Allocation. Government intervention in the process of financial intermediation has been primarily in the area of resource allocation. Recent policy measures to reform the financial system have significantly altered what could, until now, be characterized as centralized decision-making. Controls extended to the price (i.e., the lending rate), the quantity and the terms (maturity and maximum individual loan amounts) of credit available for specific activities. Subsidization of lending rates in proportion to the assumed degree of priority of investments was widespread. The fragmented lending rate structure created substantial price distortions and, to the extent that some lending rates were fixed below deposit rates, eroded the profitability of financial intermediaries. The large proportion of subsidized credits and the narrow margins between deposit and lending rates made the financial viability of intermediaries largely dependent upon regular infusions of government subsidies which were channelled primarily through the Central Bank. The two main programs of selective and subsidized lending operated by the Government in the 1970's were the Central Bank's rediscounting facility for short-term export credit and the National Investment Fund (NIF) for long-term equipment financing. The interest rate subsidies attached to these programs were removed with the interest rate reform of June 1982. At end-1981, outstanding credits amounted to W 2.2 trillion for export credits and W 1.9 trillion for NIF, which represented an aggregate share of 19.9% of total private sector domestic credit outstanding. In practice, government controls over the process of resource allocation extended not only to the selective programs it operated and funded directly (such as export credit and NIF) /1 but also included the earmarking of resources mobilized independently by financial institutions for allocation to specific subsectors such as small industries and machinery manufacturing, on terms and conditions specified by Government. In aggregate, the Government controlled approximately 50% to 60% of total banking resources.

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/1 Actually, NIF is funded primarily from annual contributions by banks, equivalent to 13% of the annual increase in their deposits.

2.15 In the late 1970s, the Korean Government began to realize that its controls over resource allocation in the real and in the financial sectors were becoming increasingly difficult to manage in view of the growing complexity of the Korean economy. While the total credit needs of the economy were met by the formal and informal credit channels, individual firms had uneven access to credit with differences in borrowing costs reflecting the multiplicity of lending rates and the highly segmented nature of the credit system rather than risk differentials. Subsidized lending rates, which were usually negative in real terms, generated excessive demand for debt financing in preference to a strengthening of the corporate equity base and encouraged investment in capital intensive projects. Increasing concern arose as to the inflationary impact of excessive credit expansion which led to some tightening of the Government's credit policies in 1980. An equally serious weakness of the government controls on credit allocation was that financial institutions were denied any meaningful role in the screening and selection of investment projects. The financial system was therefore unable to provide adequate safeguards against faulty investment decisions and over-investment in certain activities through its normal credit evaluation function. These factors, coupled with the general economic recession, account for the current excess capacity in industry.

#### Financial Sector Reform

2.16 In recognition of these deficiencies, the Bank had raised the issue of financial sector liberalization with the Korean Government as early as the 1977 Basic Economic Report.<sup>/1</sup> The Government's initial reaction to the Bank's recommendation was mixed, as the established practice of centralized governmental direction of economic activities had, until then, resulted in phenomenal economic growth and development. The Report of the Bank's Financial Sector Review, which was initiated in 1979, reiterated the call for financial sector reform but the internal consensus for reform remained weak as long as the Korean economy remained vibrant, and the need for reform was not immediately apparent. With the advent of a new economic management team and as the effects of past over-investment in highly subsidized subsectors and of the economic recession began to manifest themselves in 1979-80, the Government adopted the view that the degree of centralization of the economic decision-making process should be reduced through greater reliance on market mechanisms. Accordingly, the Fifth Five-Year Plan (1982-86) provides for greater decentralization of investment decisions in the real sector and liberalization of the process of resource mobilization and allocation in the financial sector.

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<sup>/1</sup> Report No. 1489-KO dated February 23, 1977. Growth and Prospects of the Korean Economy.

2.17 The Government took the first steps towards financial sector liberalization in 1981 with the partial liberalization of short-term interest rates on commercial paper. In the following year, the Government proceeded with a radical simplification of the detailed regulations imposed on the day-to-day operations of commercial banks and the sale to private investors of government holdings in the share capital of four of the five largest commercial banks. Further steps were taken in June 1982, with the simplification of the lending rate structure, the removal of subsidized lending rates on selective lending programs and a widening of interest spreads for financial intermediation. Progress made towards liberalization of the financial system is significant and government commitment to proceed further has been reiterated both in official declarations and in discussions with the Bank. However, the reform process is expected to take several years to complete as action will be required on a broad front to reform the policies and practices of the past. The Government also needs to move cautiously in shifting from the interventionist approach of the past to a more liberal system as both financial institutions and the real sectors will need time to adjust to the new policy environment.

2.18 To advise the Government on financial liberalization, a Financial Reform Commission was assembled in late 1981 at the initiative of the Minister of Finance. This commission, which comprises representatives of government agencies concerned with finance, officials of financial institutions and academics, prepares technical recommendations on specific subjects/measures submitted to it for study and comments. The Bank's sector work program for Korea has also been formulated to provide extensive support in this area. Financial sector missions visited Korea in late 1979 and in June 1982. Their findings have been discussed with government authorities and have provided a strong base for furthering the policy dialogue on financial matters.

#### Financial Sector Issues

2.19 As part of the dialogue on financial sector issues, the Government has provided the Bank with a "Letter of Development Policy for the Financial Sector" dated April 14, 1983 (Annex 1, Attachment 1). In the Policy Letter, the Government outlined the major elements of its financial sector reforms and the steps it proposes to take in the coming years. The Letter reaffirms the Government's commitment to liberalizing the financial system by allowing market forces to play a greater role in determining interest rates and by deregulating the activities of the various classes of financial institutions so that they can compete more freely. The objective of the reform is: (a) to improve resource allocation by decentralizing investment decisions so that both financial institutions and entrepreneurs can respond more rapidly to market forces; and (b) to enhance efficiency in intermediation as financial institutions are subjected to greater competition through simplified procedures for entry of new institutions and less legislated specialization.

The Policy Letter, however, makes it clear that the financial system can be liberalized only gradually, as precipitous action could destabilize both the financial system and the corporate sector. The Letter identifies five main issues which are at the core of the financial reform program and require government action over the next two years and, possibly, beyond. They are: (a) determination of interest rate level and structure; (b) liberalization of commercial banks; (c) supervision of financial institutions; (d) selective credit schemes; and (e) corporate indebtedness.

#### Interest Rate Reform.

2.20 The shortcomings of the past system of government controlled rates have been recognized; they included: (a) a multiplicity of selective subsidized financing programs imposed by the Government over time, each with different lending terms and conditions and with little consistency between the various programs, substantial overlaps and, usually, negative real lending rates; (b) a weighted average lending rate which, because of the large proportion of subsidized loans, barely exceeded the cost of mobilizing deposits thus giving the handling banks an interest margin which was insufficient to cover administrative expenses and to ensure their financial independence; and (c) a substantial differential between legislated lending rates and market rates which led to excessive demand for credit at the lower legislated rates and a continued growth of the securities and curb markets where rates were substantially higher.

2.21 In June 1982, the Government took actions to alleviate some of the problems associated with administered rates. The June measures lowered deposit rates to 8% and lending rates to 10% for all commercial banking institutions. These rates are positive given the present and projected inflation rate of less than 5%. The reduction in interest rates was made possible by the rapid decline in the rate of inflation and was mainly intended to lower the borrowing costs on existing debt of the corporate sector. Other measures were taken at the same time to remove some of the distortions mentioned above and to create conditions more favorable for the eventual full liberalization of interest rates. First, the interest subsidies and the wide dispersion in rates associated with directed lending programs were removed by adjusting their lending rate to 10% so that there was a unified lending rate for all commercial bank loans. Second, the interest margin between the deposit rate and the lending rate was raised to 2% thus increasing the longer term prospects for a profitable, self-sustaining banking sector.

2.22 Outside the commercial banking sector, the interest rate ceilings have been less binding and financial markets are increasingly able to respond to market forces within certain government guidelines. Interest rates on 90-180 day commercial paper have been liberalized since June 1981 and were about 14% p.a. in late 1982-early 1983. Similarly, the yields on



primary issues of corporate bonds and bank debentures reached about 13-15%, very close to the secondary market rate of 15-16% p.a. The Government has also allowed the development banks, including KDB and KLB, to lend most of their longer-term domestic currency funds at effective rates of 15% to 16% p.a. In effect, the interest rate reform of June 1982 has instituted a dual structure of lending rates with the lower 10% p.a. administered interest rate applying primarily to earlier outstanding debt which can be rolled over and most new borrowings carrying market rates of interest of 14 to 16% p.a. Although the 4-6% differential between administered and market rates which prevailed in early 1983 was still high, this differential has narrowed in recent months as market rates declined by approximately one percentage point between November 1982 and February 1983. Similarly, curb market rates are reported to have dropped sharply from the previous high of 2-3% per month to 1.5% per month, partly in response to less regulated rates for non-bank financial instruments and lower inflationary expectations.

2.23 In the Five-Year Plan, and in the Policy Letter addressed to the Bank, the Government confirms its objective to liberalize interest rates fully and to allow market mechanisms to play a more important role in determining the level and structure of interest rates. However, the Government understandably believes that full interest rate liberalization should take place after inflationary expectations have subsided further in response to the low inflation which has prevailed over the past year or so and after the differential between administered and market rates of interest has narrowed further. The Government considers that an abrupt shift to fully liberalized interest rates before market rates have fallen further might lead to a sharp increase in interest rates which could stall economic recovery and have a destabilizing effect on the financial health of a still highly indebted corporate sector. The Government has therefore committed itself to a thus far highly successful effort to reduce the rate of inflation and keep it below 5%, thus reducing inflationary expectations and interest rates in the secondary markets. Once this has occurred, interest rates can be liberalized with much less concern for possible destabilizing effects.

2.24 In the meantime, there are two issues which the Government will address: first, the differentiation of interest rates to take into account risk and maturity; and second, the potentially negative impact on bank profitability of the present system of variable lending rates combined with fixed rate deposit contracts. The eventual liberalization of interest rates is expected to allow market forces to provide for an appropriate differential in rates based on risk and maturity preferences. As the time-frame for complete liberalization of interest rates is somewhat uncertain (para. 2.23), the Government is also studying some possible interim options which include (a) changes in legislated interest rates which would allow the banks to mobilize longer term deposits and to charge higher rates for longer term, higher risk loans and (b) the introduction of new types of long-term savings

instruments such as bank debentures and negotiable certificates of deposits whose yields would be closely related to secondary market rates and whose proceeds could be loaned at rates which ensure a positive spread. With respect to the second issue, the system of variable lending rates has had the effect of immediately lowering commercial bank income as loan rates were rapidly reduced in 1981 and 1982 while the cost of deposit resources could only come down gradually because of the fixed interest rates on time and savings deposits. The problem has become less severe, as earlier, more costly deposits have matured. The Government, however, realizes that the present system has caused serious financial difficulties for commercial banks as interest rates declined rapidly and will study this matter further to determine whether adjustments are desirable in current banking practices. The Government will inform the Bank of the progress made in reviewing the interest rate issues discussed in this paragraph by the end of 1983 and periodically thereafter.

#### Liberalization of Commercial Banks

2.25 As indicated above, the non-specialized commercial banking system remains, to date, the most important segment within the Korean financial system, accounting for about one-third of total assets. Along with the government-owned specialized commercial banks, the non-specialized banks and particularly the five nationwide "city banks," have played an important role in administering the directed credit system which prevailed until recently (para. 2.11 and 2.12). The privatization and liberalization of the institutions operating under the Commercial Banking Act is therefore an essential element in the Government's program of financial reform. That element, however, should be considered in the context of the much broader objective of improving efficiency and competitiveness in the financial sector as a whole. It is therefore the Government's intention to continue the process of liberalization with non-specialized commercial banks and to review the need for reforming the role and functions of the specialized banks and other institutions.

2.26 The tools at the disposal of the Government to improve the efficiency and competitiveness of financial institutions consist primarily of: (a) the licensing of new institutions in both the banking and nonbanking sectors; and (b) deregulation of the activities of existing financial institutions to reduce legislated specialization and excessive segmentation of credit markets. Significant progress has already been achieved by the Government and more is expected in the coming months.

2.27 As stated in the Government's Policy letter, the measures taken so far to liberalize the operations of the banking sector have been concentrated in four areas: the privatization of the "city banks" ownership; the deregulation of many of their activities; a broadened scope of activities open to commercial banks; and the licensing of new banks. Full privatization of the

five nationwide city banks was initiated in June 1981 and completed in March 1983 with the sale to private investors of the Government's remaining equity holdings. Privatization is expected to have a beneficial impact on services to customers and on overall efficiency by encouraging increased competition. Legislation has also been enacted which limits the degree of ownership by any private group. In parallel with the privatization, significant measures have been taken to reduce the role of the Government in the management and operation of the commercial banks. Specifically, controls have been eliminated to give the banks much greater autonomy in matters related to personnel management, organization and budgeting. Finally, commercial banks have been authorized to undertake new activities as a means of increasing the range of their services in competition with the non-banking sector and to improve their earnings. These new activities include the sale of short-term commercial paper and of Government securities. Finally, the recent licensing of two new banks as joint ventures with foreign interests is expected to increase competition, reduce the potential for oligopolistic control in the banking sector and foster greater efficiency in financial intermediation.

2.28 In the coming months, the Government intends to pursue the process of liberalization of commercial banks and to initiate steps for deregulating the activities of specialized banks and non-bank financial institutions. Commercial banks will be authorized to tap new sources of funds including mutual savings and investment trusts while credit activities will be expanded to cover credit card operations and factoring. Increased competition in the banking sector will be pursued further by lessening restrictions on the establishment of branches of regional banks and by broadening the scope of activities of the specialized commercial banks and of the development banks. With respect to the latter, the Financial Review Commission will consider in 1983 proposals prepared by KDB and KLB which would help diversify their sources of funds and improve their competitiveness with commercial banks. With respect to other non-bank institutions, the Government has already taken steps to increase competition by licensing new short-term finance companies and mutual savings finance companies. Additional measures are being considered which would increase the range of activities open to short-term finance companies and would allow the establishment of branches. To provide additional security in a more competitive financial system, the Government has passed legislation to establish a deposit insurance system covering the deposit substitutes of non-bank intermediaries.

2.29 It is clear that government plans as outlined in the Policy Letter go beyond the more immediate objective of liberalizing commercial bank operations. Great emphasis is being placed on increasing competition among various classes of financial institutions and on dismantling the system of legislated specialization to reduce segmentation and inefficiency. Supporting measures are also being enforced to increase the administrative efficiency of financial institutions and improve the skills of their staff. A critical element in improving administrative efficiency will be the ability of banks to earn revenues sufficient to cover administrative costs

and make profits without being dependent on government subsidies. In this respect, the Government's decision in June 1982 to increase to two percentage points the spread between deposit and lending rates should provide a more satisfactory basis for improving commercial bank profitability. Ultimately, interest rate liberalization and greater competition in the financial system would create an environment where the banks could freely determine spreads in relation to market conditions. In the area of skills development, Korean financial institutions, with government support, are strengthening their training programs to enhance the capability of their staff to operate in a new, more competitive environment. A component of the proposed project is designed to support this program as it relates to overseas training (para. 4.65).

#### Supervision of Financial Institutions

2.30 In the past, supervision of the financial institutions was shared between the Superintendent of Banks (of the Central Bank), acting on behalf of the Monetary Board, for non-specialized commercial banks established under the General Banking Act and the Ministry of Finance for all other financial institutions. In line with Government's active involvement in credit allocation, supervision consisted primarily of issuing detailed directives, regulations, orders and instructions which governed the operations, management and administration of financial institutions. The system relied mostly on prior authorization and approval of business operations. Compliance was strictly enforced and supervised.

2.31 The new philosophy underlying the Government's program of financial sector reform has brought with it a change in the approach to financial supervision. As indicated in para. 2.27, important steps have been taken in 1981-82 to deregulate banking practices and simplify the cumbersome regulatory apparatus. All regulations governing internal management such as personnel, organization and budgeting were abolished and regulations of business operations have been simplified. The system of financial supervision is also moving from the past reliance on prior authorization by supervisory agencies to ex-post monitoring of actual performance in relation to a simplified set of guidelines. Implementation of the new system has already been initiated but its full introduction requires staff training to develop new skills. Overseas training of some Central Bank examiners is included in the training component of the proposed project. In its Policy Letter to the Bank, the Government also envisages the possibility of consolidating the supervisory activities of the Central Bank and of the Ministry of Finance which would appear to be a logical corollary to the deregulation of financial activities and the increasing overlap of functions between different classes of institutions.

#### Directed Credit

2.32 A central objective in the program of financial sector reform is to reduce the role of Government in credit allocation as greater efficiency can

be achieved by relying increasingly on market forces and on a more appropriate system of investment incentives. Directed lending programs along with the operational guidelines imposed on banks have been the main tools of government intervention in credit allocation (para. 2.14). In parallel with the relaxation of the guidelines imposed on bank operations, the Government has adopted measures described in the following paragraphs to reform the system of directed credit.

2.33 Important steps have already been taken by the Government to alleviate some of the problems of ongoing selective credit programs and to phase out some of the marginal ones. The most important measure was the removal in June 1982, of all interest rate subsidies on selective credit programs by bringing their lending rate to the same level as the general lending rate of 10%. To date, short-term export credits and NIF remain the two main instruments of directed lending with 8.6% and 9.3%, respectively, of total private domestic credit at end-1982. The short-term export credit program operates as a rediscounting window of the BOK available to all commercial banks, specialized and non-specialized. Although that program has been criticized for some of the difficulties it imposes on the Central Bank's credit management policies, it is generally acknowledged as providing fair access to credit for qualifying exporters. Little change seems required in its modus operandi except perhaps for the interest margin accruing to handling banks which appears excessive. As indicated in the Policy Letter, this matter is under review by the Government.

2.34 The operation of the NIF program, however, has several shortcomings related primarily to the degree of government intervention in credit allocation and to its funding which is tantamount to a tax on the deposits of commercial banks. Problems related to the first issue have been alleviated since 1982 as the Government agreed to approve NIF allocations on a sectoral basis rather than enterprise by enterprise. This is expected to increase considerably the autonomy of handling banks in allocating NIF funds. The Government has also agreed to transfer entirely the responsibility for handling NIF to the specialized commercial banks and to KDB by the end of 1984. This would be consistent with the recent measures taken to privatize the non-specialized commercial banks and to reduce the degree of government intervention in their operations. Moreover, the specialized commercial banks and KDB are more qualified, at the present time, to handle the appraisal of long-term equipment loan applications such as NIF. With respect to the funding of NIF, minor changes are expected in the near future. The Government has agreed in the Policy Letter, with the principle of controlling more tightly the growth of the NIF program so that it continues to decline as a proportion of total private domestic credit and, in line with this reduction, the Government will adjust downward the 13% contribution made by banks out of their deposit resources. The Policy Letter also reiterates the Government's commitment to continue to operate the remaining directed credit programs on a non-subsidized basis in the future.

### Corporate Indebtedness

2.35 Cash earnings of the corporate sector should improve substantially in 1982-83 following the reductions in both the cost of borrowings and the corporate income tax. These higher earnings coupled with some improvement in the strength of the economy should provide the corporate sector with resources sufficient to improve further the debt/equity structure. To this end, the Government must provide incentives for building up equity positions and disincentives to acquiring new debt.

2.36 The elimination of interest rate subsidies on selective lending programs is expected to be a key factor in discouraging excessive indebtedness in the future. With respect to strengthening corporate equity, the Government has outlined in the Policy Letter the measures which have been adopted to encourage retained earnings. These measures include the exemption from personal income tax of compulsory legal reserves and alleviation of the tax on assumed dividends for closed corporations. Other measures are being considered to encourage the investment of long-term contractual savings in the capital market. Higher corporate profits are also expected to improve market values in the stock market and to encourage new stock issues. Finally, the Government is determined to encourage banks to foreclose loans made to companies which remain chronically insolvent and whose future prospects are doubtful.

### Monitoring the Reform Process

2.37 The Bank has been monitoring the progress made by the Government in its program of financial sector reform since the first measures were adopted in 1981 (paras. 2.22 and 2.27). The monitoring of further progress towards liberalization will be carried out through regular supervision of the proposed project. Particular attention will be given to ensuring:

- (a) that the improvements thus far achieved through recent reforms (i.e., positive real interest rates, adequate lending spread, reduced augmentation of lending rates) are maintained; and
- (b) that further progress towards liberalization is achieved over the period 1983-85.

With regard to (b) above, the performance criteria reviewed by the Bank during project implementation will include: (a) continued pursuit by the government of macro-policies which are instrumental in further lowering market rates of interest such that the differential between legislated and market rates is narrowed; (b) reduction in legislated specialization of financial institutions by encouraging expansion in the range of activities undertaken by different categories of financial institutions; (c) licensing of new financial institutions; (d) introduction of new supervision procedures consistent with a liberalized financial system; (e) reduction in the role of directed credit by decreasing the share of NIF in total credit, removing its administration from private commercial banks and lowering their contribution to its funding; and (f) adopting incentives to encourage a broader capitalization of the corporate sector. Further details on specific measures to be taken over the period 1983-85 are available in Annex 1, Table 4.

### 3. THE BANK'S INDUSTRIAL LENDING STRATEGY

3.01 Past Operations. Historically, the Bank's industrial lending strategy has been principally aimed at strengthening selected financial intermediaries responsible for lending long-term resources, including those from the Bank, to industry./1 This type of lending was initiated in 1968 when the Bank Group supported the establishment of the Korea Development Finance Corporation (KDFC), which later became the Korea Long-Term Credit Bank (KLB). Later, the Bank established a solid relationship with three other development institutions: the Korea Development Bank (KDB) and the Small- and Medium-Industry Bank (SMIB) in 1975, and the Citizens National Bank (CNB) in 1980. The Bank has helped meet the financial needs of medium to large-scale firms through its loans to KDB and KLB, and of smaller firms through loans to SMIB and CNB. To date, the Bank has lent \$1,027.5 million to the industrial sector through these institutions./2 In general, project implementation has been excellent. Project Completion Reports (PCRs) for Loans 735-KO, 905-KO and 1145-KO to KLB, for Loan 1095-KO to KDB, and for Loan 1175-KO to SMIB concluded that in all cases, the Bank's twin objectives of resource transfer and institution building were achieved satisfactorily with rapid institutional improvements ensuring the allocation of Bank resources to industrial projects yielding substantial financial and economic benefits. The PCRs also emphasized that these Bank loans were supportive of the Government's priorities in the industrial sector. The Project Performance Audit Reports (PPARs) for Loans 735-KO, 905-KO and 1145-KO /3 and for Loan No. 1095-KO /4 supported the PCRs' conclusions and praised the high standard of KDB and KLB's operations as well as their developmental record, particularly in helping deepen the institutional base of the financial sector.

3.02 The primary objectives of Bank loans to the Korean development finance institutions have been: (a) transfer of foreign exchange resources needed to strengthen industrial investment; (b) improvement in the institutional efficiency of financial intermediaries; and (c) support of the industrial investment priorities of the Government viz. export promotion, regional development, employment generation and skill development. In the 1980s, greater emphasis will be given to the overall policy environment for industry and finance.

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/1 Two exceptions are the Korea Machinery Loan (Loan 1466-KO) and the Electronics Development Project (Loan 1676-KO).

/2 Eight Bank loans for \$410 million has been made to KLB; four loans for \$352.5 million have gone to KDB; SMIB has received four loans totaling \$205 million; and two loans have been made to CNB for \$60 million.

/3 Project Performance Audit Report No. 3430, dated April 30, 1981.

/4 Project Performance Audit Report No. 3419, dated April 13, 1981.

3.03 Lending Strategy in the 1980s. The Bank's lending strategy in the industrial sector has three main dimensions: (a) Structural Adjustment Loans (SAL) which are heavily focussed on the industrial sector, giving particular attention to trade and incentive policies (para. 1.15); (b) Industrial Finance Projects which are increasingly focussed on broader financial policies; and (c) subsector projects which aim at restructuring specific industrial activities and at developing the country's technological capabilities. Recent loans to the Korea Institute of Electronics Technology (KIET),<sup>/1</sup> the Korea Technology Development Corporation (KTDC),<sup>/2</sup> and the Small and Medium Industry Promotion Corporation (SMIPC)<sup>/3</sup> were all designed to finance the transfer of technology and upgrade skills so that Korean industry would remain competitive in international markets as its comparative advantage shifts from labor intensive to more technology intensive industries. A further loan to KTDC is planned for FY85. A small industry operation is also planned for FY85 which, in addition to providing credit to CNB and SMIB, would support the consolidation of technical assistance services by SMIPC.

3.04 The greater focus on financial sector policies in the Bank's Industrial Finance Projects is made possible by the fact that the Korean development finance institutions, to which the Bank has lent, have become more mature and now require relatively less institutional assistance from the Bank than in the past. Starting with its latest loans to KDB <sup>/4</sup> and KLB,<sup>/5</sup> the Bank has used the DFC lending approach to serve as a springboard for reaching objectives broader than resource transfer and institution building. The policy content of the previous lending operations to KDB and KLB was articulated in the form of a program of policy measures and surveys which the Government agreed to undertake over the period 1981-82. The Industrial Finance Project outlined in the present report, would support a program of further financial sector reforms which builds upon the progress already achieved through the 1980 operation. The policy reforms are described in Chapter 2 of this report and in the Government's "Letter of Development Policy for the Financial Sector" (Annex 1, Attachment 1). The next Industrial Finance Project is likely to be broader in its scope as it might include the participation of commercial banks following their privatization and the strengthening of their staff capabilities in term lending.

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- <sup>/1</sup> Loan No. 1676-KO, approved March 22, 1979. Staff Appraisal Report No. 2322-KO, dated February 27, 1979.
- <sup>/2</sup> Loan No. 2112-KO, approved March 25, 1982. Staff Appraisal Report No. 3707-KO, dated February 25, 1982.
- <sup>/3</sup> Loan No. 2215-KO, approved December 14, 1982. Staff Appraisal Report No. 3871-KO, dated November 16, 1982.
- <sup>/4</sup> Loan No. 1933-KO, approved December 23, 1980. Staff Appraisal Report No. 3106-KO, dated November 20, 1980.
- <sup>/5</sup> Loan No. 1932-KO, approved December 23, 1980. Staff Appraisal Report No. 3115-KO, dated November 20, 1980.



#### 4. THE PROJECT

##### A. Project Objectives and Description

4.01 The proposed project reflects the Bank's new approach to industrial lending in Korea. First it aims to support the ultimate objective of financial liberalization and provides technical assistance in the implementation of these reforms. Second, it provides financing for high priority projects in the industrial sector. The proposed project would have three objectives: (a) to help support the Government's financial sector policy reform, particularly the specific measures and objectives which the Government intends to implement or achieve over the two-year period 1983-85; (b) to support high priority industrial investments through a credit component by financing part of the foreign exchange requirements of KDB and KLB in an amount of \$130 million and \$120 million, respectively; and (c) to strengthen the financial system through a technical assistance component of \$5 million, of which \$2.5 million would cover the foreign exchange requirements of an overseas training program geared to meeting the needs of financial supervisory agencies and of selected financial institutions, and another \$2.5 million would cover part of the costs of consultants to help in establishing a system for computerizing data on financial transactions as a basis for improving credit information and tax collection.

4.02 The following sections B and C summarize the characteristics of the two financial institutions, KDB and KLB, eligible for participation in the credit component. Section D describes the technical assistance component. A more detailed review of the institutional, operational and financial aspects of KDB and KLB is available from the project file.

##### B. The Korea Development Bank

4.03 The main issue currently facing KDB is that of its future role in a liberalized economic environment and financial system. As a government-owned development bank it has tended, in the past, to rely extensively on government funding /1 and to function both as a development bank appraising and financing projects, and as the agency of government funded programs, allocating funds to projects identified by the Government as having high

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/1 Although foreign commercial borrowings have become a very important source of funds for KDB since the late seventies, they reflect not only KDB's own creditworthiness but also the implicit guarantee of the Korean Government.

priority. However, the Government's Fifth Plan is based on a new approach to economic management which aims at reducing both government intervention in private economic activities and the share of preferential credits provided by the Government for which KDB is the principal agent. Retrenchment of KDB's activities to operating exclusively as a government agent for preferential credit would mean a decline in KDB's importance in the financial system and a loss of its clientele to private sector financial institutions. Another option has been studied by KDB which would: diversify its sources of funds, particularly domestic currency resources, primarily through acceptance of deposits; increase its competitiveness with other institutions, including banks; and, more generally, give a greater commercial orientation to its activities, including a greater concern for profitability. The Bank has indicated to KDB and to the Government that it would support a greater commercialization of KDB's operations as this could provide additional momentum to the ongoing liberalization of the financial sector. Deregulation of KDB's operations would further reduce segmentation in credit markets and would increase competition among financial intermediaries. It would, however, be necessary to ensure that KDB competes fairly with other financial institutions by removing some of the tax and other privileges granted to KDB by the Government.

4.04 A task force has been assembled within KDB to review its future role and has issued a draft report to the MOF which encompasses the proposed changes discussed above. The Bank has discussed with KDB its future role, and will be further consulted prior to the introduction of any major institutional changes.

#### KDB's Role in the Industrial and Financial Sectors

4.05 KDB was established in 1954 as a government-owned development bank. It continues to operate primarily as the financing arm of the Government's industrial investment policies. All the Government's major selective lending schemes for industry are, at least in part, being administered by KDB <sup>/1</sup> with the exception of the short-term export credit program. In addition to supporting industry, KDB is called upon to finance major projects

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<sup>/1</sup> The National Investment Fund (NIF), the Tourist Development Fund, the Energy Rationalization Fund, the Industrial Rationalization Fund, the Shipping Promotion Fund, the Special Industry Supporting Funds and the Electronic Industry Promotion Fund.

in the transportation and power sectors./<sup>1</sup> Only large-scale /<sup>2</sup> enterprises are eligible for financial assistance from KDB. KDB's financing, however, is not confined to public sector projects; loans to the private sector have increased as a share of KDB's outstanding loan portfolio from 38% at end-1975 to 64.1% as of December 31, 1982. A major proportion of KDB's lending to the private sector is absorbed by large industries involved in priority activities encouraged by the Government.

4.06 As of year-end 1981, KDB was the single largest financial institution in Korea with total assets of W5.1 trillion (US\$7.5 billion), or 8.3% of the total assets of the financial sector. KDB is also the largest source of term finance for industry with 13.1% of all loans outstanding to the manufacturing sector as of December 31, 1981, and 18.6% of total long-term equipment loans.

#### Institutional Aspects

4.07 Legal Framework and Ownership. KDB was established in 1954 under a special legislative act which governs its operations, policies, administration and capitalization. The KDB Act was last amended in December 1981 to increase its authorized share capital to W 1 trillion (\$1.3 billion).

4.08 Organization, Management and Staffing. In addition to the Head Office and 11 local branch offices outside Seoul, KDB has 7 representative offices and 2 subsidiaries in the major overseas financial centers to assist in foreign currency resource mobilization (Annex 2, Chart 1). As of December 31, 1982, KDB's total staff amounted to 1,993, of which 32% were professional staff. The quality of KDB's senior and middle-level management and staff is good. While broad lending guidelines are established under KDB's Policy Statement (Annex 2, Attachment 1), day-to-day operating policies are determined by KDB's Board of Directors consisting of the Governor, Deputy Governor and seven Executive Directors (Annex 2, Table 1). Mr. Chang Nak Choi was appointed Governor of KDB in 1982 and has provided a major impetus to KDB's search for alternatives in its future strategy.

4.09 Project Appraisal and Supervision. The comprehensiveness with which KDB appraises projects varies significantly depending on the source of funding and the nature of the project under review. For projects funded

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/1 At end-1982, the non-manufacturing sector accounted for 50.8% of KDB's outstanding portfolio.

/2 I.e., enterprises employing more than 300 persons and with total assets exceeding W 500 million. Smaller enterprises (employing less than 300 persons or with assets lower than W 500 million) receive financial assistance from the Small and Medium Industry Bank (SMIB) or from the Citizens National Bank (CNB) when employment is under 100 persons. Both institutions are government-owned.

with official foreign exchange resources, KDB carries out a satisfactory appraisal and undertakes FRR and ERR analyses for all projects in excess of \$750,000. For projects funded out of government resources or under selective lending schemes, the appraisal undertaken by KDB is less thorough and might occasionally be limited to a review of the feasibility study undertaken by another agency. KDB does not have an independent unit to supervise projects; project officers are in charge of both project appraisal and supervision. Clients are required to prepare quarterly operational reports for KDB and to provide audited financial statements for the purpose of project supervision. Overall, KDB's appraisal and supervision standards are good.

4.10 Procurement and Disbursement. KDB's procurement procedures are satisfactory and ensure a reasonable degree of competition. Essentially three procurement procedures are utilized: international competitive bidding (ICB) for contracts equal to or exceeding \$1 million; limited competitive bidding when procurement is less than \$1 million; and proprietary contracts in qualifying cases. Under the latest Bank loan (Loan 1933-K0), ICB accounted for 38% of total procurement contracts, limited competitive bidding for 15% and proprietary contracts for 47%. KDB's disbursement procedures ensure that funds are made available in accordance with progress in project implementation and are supported with proper documentation.

#### Resource Allocation

4.11 Scope, Volume and Characteristics of Operations. KDB's operations for the period 1978-82 are summarized below:

SUMMARY OF KDB'S OPERATIONS, 1978-82  
(Won billion)

	1978	1979	1980	1981	1982
<u>Loan Commitments</u>					
Domestic currency /a	466.2	750.3	1,075.7	1,084.2	1,330.1
Foreign currency	121.8	205.4	221.0	186.4	241.7
<u>Total Loans</u>	<u>588.0</u>	<u>955.7</u>	<u>1,296.7</u>	<u>1,270.6</u>	<u>1,571.8</u>
<u>Investments</u>					
Equity investments	83.3	26.9	175.7	59.6	1.8
Bonds and debentures	3.8	9.0	12.2	75.2	92.5
<u>Total Investments</u>	<u>87.1</u>	<u>35.9</u>	<u>187.9</u>	<u>134.8</u>	<u>94.3</u>
<u>Guarantees Issues</u>					
Domestic currency	40.7	68.8	103.4	24.4	262.8
Foreign currency	1,446.6	1,073.7	2,131.4	2,029.7	978.0
<u>Total Guarantees</u>	<u>1,487.3</u>	<u>1,142.5</u>	<u>2,234.8</u>	<u>2,054.1</u>	<u>1,240.8</u>
<u>Total Commitments</u>	<u>2,162.4</u>	<u>2,134.1</u>	<u>3,719.4</u>	<u>3,459.5</u>	<u>2,906.9</u>

/a Including foreign currency funds converted into domestic currency.

4.12 Lending Operations. The volume of KDB's total loan commitments increased sharply at an average annual rate of 49% over the period 1978-80, fell by 2% in 1981, owing to the economic recession, but increased by 24% in 1982. Foreign currency loan commitments declined to about 15% of total loan commitments in 1980-82 compared to about 21% in 1978-79 reflecting the decreasing attractiveness of foreign currency borrowings as domestic lending rates were lowered by the Government. Foreign currency loan commitments actually declined by 16% in 1981 compared to 1980. Working capital loans increased dramatically as a proportion of total domestic currency loans from about 20% in 1978-79 to around 40% for 1980-82, reflecting the tight liquidity situation of the corporate sector (Annex 2, Table 2). While equipment loans have declined in relative importance, their average maturity has remained relatively constant. For the period 1978-81 about 15% of all loans had a maturity of over 10 years with a weighted average maturity of about 8.3 years for equipment loans. KDB's outstanding loan portfolio as of year-end 1982 amounted to W 4.7 trillion, or \$6.3 billion (Annex 2, Table 3).

4.13 The sectoral allocation of loan commitments has remained largely unchanged with the manufacturing sector accounting for about 57% in 1979-82. Within manufacturing, capital goods industries are the most significant with about 33% of 1982 loan commitments (Annex 2, Table 4).

4.14 Investment Operations. As of December 31, 1982, KDB's outstanding investment portfolio amounted to W 641 billion (\$855 million). Equity investments accounted for 76% of the total portfolio as against 91% at end-1978; bonds and debentures accounted for the balance (Annex 2, Table 5). About 66% of KDB's equity holdings were invested in public sector companies which provided KDB with very low returns (Annex 2, Table 6). The bond and debenture portfolio has grown at an average rate of over 55% p.a. for the period 1978-82 and has become substantially more profitable than the equity portfolio.

4.15 Guarantee Operations. As of December 31, 1982, KDB's outstanding guarantee portfolio amounted to W 4.1 trillion (\$5.5 billion) compared to an outstanding loan portfolio of W 4.7 trillion (\$6.3 billion). About 93% of all outstanding guarantees were in foreign currency (Annex 2, Tables 7-8).

4.16 Directed Lending. While most of KDB's loan operations can be considered as directed by the Government, the extent of the direction in resource allocation varies significantly depending on the source of funding. For conceptual purposes, KDB's loan operations can be classified into three categories. First, KDB is used by the Government as a conduit to channel budgetary appropriations to pre-identified public sector entities such as the Korea Electric Company, Korea National Railroads and the Pohang Iron and Steel Company. In the administration of these resources, KDB acts merely as a conduit, undertaking no formal appraisal. This type of lending accounted for about 13% of KDB's outstanding loans in 1981. Second, KDB administers a number of selective lending schemes for the promotion of specific industrial subsectors.<sup>/1</sup> Until recently, the degree of government intervention was quite high in the allocation of resources to specific enterprises eligible under the selective lending programs. Procedures for resource allocation have been reassessed by the Government in the context of its financial sector reforms with a view to giving a greater role to financial intermediaries, including KDB, in determining the eligibility of individual companies within broad sectoral guidelines (para. 2.34). Special lending programs administered by KDB accounted for 38% of total loans over the period 1978-81. The third category, representing about 50% of total loans, consists of funds mobilized directly by KDB (i.e., deposits, debentures and foreign borrowings) which are allocated more independently, within the guidelines of the KDB Act. In aggregate, the proportion of KDB's loan portfolio financed from government resources has decreased from 57% in 1978 to about 50% in 1981. The degree of direct government intervention in KDB's resource allocation has declined proportionately (Annex 2, Table 9).

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<sup>/1</sup> KDB currently administers six such schemes of which the most important is NIF.

### Developmental Impact of KDB's Operations

4.17 Economic Impact of KDB's Lending. In 1981, KDB approved 763 projects with a total cost of W 2.9 trillion (US\$3.9 billion); these investments are expected to generate an incremental annual output of W 4.9 trillion (US\$6.5 billion) and incremental annual value-added of W 873 billion (US\$1.2 billion). Expected incremental annual exports for these projects totalled W 2.7 trillion (US\$3.6 billion), about 55% of sales. The incremental annual employment resulting from KDB's lending activities has ranged from 71,000 in 1977 to 106,000 in 1981; the cost per job created averaged \$40,800 in 1981 (Annex 2, Table 10).

4.18 Utilization of Bank Loans No. 1574-KO and 1933-KO. KDB has received four loans from the Bank since 1975. Utilization of Bank resources has been satisfactory from both a financial and developmental viewpoint. As of year-end 1982, KDB had completed disbursement under Loan 1574-KO and had disbursed \$83 million under Loan 1933-KO. KDB financed 56 subprojects under the third Bank Loan (1574-KO) for a total project cost of \$411.3 million, 41.8% of which was financed by KDB. Subloans ranged in size from \$218,000 to \$25.9 million. The projects are expected to generate about \$205 million in incremental annual exports and to employ 6,381 people at a cost per job of \$64,500. The weighted average ex ante FRR and ERR reached 22.3% and 29.8%, respectively. Details of the individual subprojects financed under this loan are provided in Annex 2, Table 11.

4.19 As of year-end 1982, KDB had committed all but \$2.0 million of the latest IBRD Loan (No. 1933-KO) of \$100 million; cumulative disbursements amounted to \$81.0 million. Thus far, 55 subprojects have been approved with subloan sizes ranging from \$110,000 to \$19.1 million. The total project cost of the subprojects amounted to \$480.3 million, of which KDB financed \$284.1 million or 59.1%. These projects would generate about \$174.5 million in incremental annual exports and employ 11,017 people at an estimated cost per job of about \$43,600. Weighted by project cost, the average ex ante FRR and ERR reached 21.4% and 41.1%, respectively. Details of the individual subprojects financed under the loan are provided in Annex 2, Table 12.

### Financial Condition and Performance

4.20 Financial Condition. KDB's assets have grown at an average annual rate of 31% over the period 1978-82 and amounted to W 5.9 trillion (\$7.9 billion) as of December 31, 1982 (Annex 2, Table 13). As of December 1982, the current ratio stood at a satisfactory 1.5:1 as against 1.3:1 in 1978; the long-term debt-equity ratio of 8.0:1 was well within the contractual limit of 10:1 agreed with the Bank. KDB's debt service cover ratio declined from 1.4 in 1978 to a low of 1.0 in 1981 owing primarily to the reduction of KDB's spread on lending operations. Significant improvement occurred in 1982, however, as the debt service cover ratio recovered to 1.3.

4.21 Financial Performance. KDB's profitability defined as net profit to total assets, declined sharply from a satisfactory level of 1.8% in 1978 to 1.2% in 1980, 0.88% in 1981 and 0.3% for 1982 (Annex 2, Table 16). KDB's gross operating spread narrowed from 3.65% of average total assets in 1978 to 1.8% in 1981, with a further decline to 1% in 1982. Until 1981, both financial expenses and gross income increased as a percentage of average total assets, but the growth in financial expenses was more rapid and lending spreads declined. In 1982, the upward trend was reversed with both financial expenses and earnings declining as a percentage of assets. However, financial expenses declined less rapidly, thus further eroding interest spreads. The reduction in KDB's lending margins was particularly significant for the funds lent from the proceeds of foreign commercial borrowings converted into domestic currency (Annex 2, Table 17).

4.22 Spread on Foreign Commercial Borrowings. Since the mid-seventies, KDB has converted part of its foreign commercial borrowings into domestic currency in order to meet the demand for domestic currency financing which exceeded available resources. The lending rate applicable to converted foreign funds is variable/<sup>1</sup> and is determined on a quarterly basis by adding a 2% spread to the weighted average borrowing cost to KDB. Although KDB requires that borrowers bear the foreign exchange risk, there was, until recently, considerable demand for converted funds as their effective borrowing cost, inclusive of a foreign exchange risk of about 6% p.a. was less than the long-term interest rate on domestic currency loans.<sup>/2</sup> Successive reductions in the domestic currency lending rate over the period 1980-82 have gradually eroded and eventually reversed the cost advantage of converted foreign commercial funds over domestic currency loans. The 8-9% differential which prevailed in 1980 was wiped out by year-end 1981 as the nominal lending rate on converted funds was aligned on the domestic currency rate with no allowance to cover potential foreign exchange losses. The situation further deteriorated in 1982 as the reduction to 10% in domestic currency lending rates coincided with an increase in the weighted average cost of KDB's converted funds from 13.84% in early 1982 to 14.84% in late 1982. To maintain some degree of competitiveness, KDB reduced its margin from 2% in early 1982 to 0.157% in September 1982, a level clearly insufficient to cover administrative expenses. Despite this adjustment, the lending rate on converted funds was 15% in late 1982, compared to the commercial bank lending rate of 10%. The recent lowering of international interest rates has brought down the weighted average cost of KDB's foreign commercial borrowings to 12.67%, thus enabling KDB to reduce its onlending rate in January 1983 to 14.2% for a nominal spread of 1.539% and an effective spread

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<sup>/1</sup> Most foreign commercial borrowings are pegged to the six-month LIBOR rate.

<sup>/2</sup> For example, in late 1980 the interest rate on domestic currency equipment loans ranged from 20% to 23% while the interest rate on converted loans ranged from 12% to 14.5%.



of 2.89%. At year-end 1982, KDB's effective lending rate of 15.56% was in line with prevailing market rates, although substantially higher than the 10% bank rate.

4.23 In early 1983, KDB had an effective spread of 2.89% on converted funds and 1.25% on other nonconverted foreign commercial borrowings (para.4.30). The weighted average spread on foreign commercial funds of 2.36% appears to be sufficient to improve KDB's profitability. To ensure that KDB continues to earn an adequate spread on its foreign commercial resources, <sup>/1</sup> KDB agreed at negotiations to maintain a weighted average effective spread of at least 2% on its lending operations out of foreign commercial resources.

4.24 Quality of Portfolio. Despite government intervention in its lending operations, KDB has been generally able to select creditworthy borrowers and has maintained a sound portfolio. Although satisfactory, KDB's portfolio deteriorated in the period 1979-81, as the economic recession reduced corporate profitability and tightened liquidity. Arrears of principal and interest increased from 0.3% of the outstanding portfolio in 1978, to 0.6% in 1979-80 and 0.5% in 1981. The arrears position improved substantially in 1982 with total arrears amounting to only 0.2% of the outstanding portfolio. Principal affected by arrears amounted to 1.2% of total principal outstanding in 1982, compared to 5.8% in 1979, 5.3% in 1980 and 4.3% in 1981. In aggregate, arrears, reschedulings, foreclosures and write-offs affected only 7.0% of the year-end 1982 portfolio compared to 10.1% and 11.0% in 1980 and 1981, respectively. KDB's collection performance has been excellent; the collection rate for 1982 was 99.3% compared to about 97% for the period 1979-81 (Annex 2, Table 18 and 19).

4.25 The system of directed/subsidized lending, however, has had a negative impact on KDB's exposure in individual firms. Although KDB's normal lending policy restricts its financial assistance to a maximum of either 25% of its own equity or 65% of the total assets of a borrower, over 50% <sup>/2</sup> of its aggregate loan, investment and guarantee portfolio exceeded these limits in 1980-81. However, a system of guarantees and counter-guarantees granted by the Government significantly reduces the potential financial risks to KDB of such overexposure, such that as of December 31, 1982, only 9 firms representing 28% of KDB's aggregate portfolio, excluding the portion covered by government guarantees, exceeded these limits. The Government's effective encouragement of debt financing has also resulted in some firms operating with excessive debt/equity ratios. Highly geared firms

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<sup>/1</sup> With regard to foreign official borrowings, a 2% spread is already required.

<sup>/2</sup> 56% in 1980 and 51% in 1981.

have found it difficult to meet their debt-service obligations in recent times when profitability declined and borrowing costs were high. The number of KDB clients with negative equity has risen from 7.1% in 1979 to 10.7% in 1981. Although re-evaluation of assets would substantially alter the picture, the excessive reliance on debt financing is worrisome. To help improve the financial structure of its subborrowers, KDB would continue its present policy of encouraging project sponsors to increase their equity contribution to project financing. To this end, KDB would, under the proposed Bank loan, require that project sponsors contribute equity financing sufficient to achieve a maximum 4.5:1 debt/equity ratio, including the proposed sub-loan./1

4.26 Audit. KDB's accounts for 1981 have been audited in keeping with international standards by San Kyong and Company, a firm associated with Touche Ross International. KDB's accounts were certified without qualification and the auditors stated that in their judgement, the level of provisions set aside by KDB was adequate.

#### Resource Mobilization

4.27 As of December 31, 1982, KDB's total resources amounted to W 5.6 trillion (\$7.5 billion) of which 65% had been mobilized in domestic currency and 35% in foreign currency (Annex 2, Table 20). On the asset side, the currency mix of KDB's loan and investment portfolio outstanding was 85% in domestic currency and 15% in foreign currency. The significantly greater share of domestic currency operations relative to resources mobilized reflected the greater demand for domestic currency resources. The difference is equivalent to \$1.61 billion of which \$1.46 billion represents KDB's foreign exchange resources converted into domestic currency./2 As of December 31, 1982, 19% of KDB's outstanding domestic currency loan portfolio had been funded from converted foreign exchange resources.

4.28 Domestic Currency. During the 1975-82 period, a net total of W 4.8 trillion was mobilized by KDB, of which 61.6% was in domestic currency./3 KDB's principal source of domestic currency funds consisted of budgetary allocations and borrowings under special financing schemes which together represented 69% of the net increase in KDB's domestic currency resources outstanding. Government contributions to KDB's equity together with a relatively modest increase in reserves represented 14% of the net increase in domestic resources. Including its equity, KDB's aggregate dependence on government funding amounted to 83% of total domestic

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/1 Under Loan 1933-KO, the maximum debt/equity ratio allowed was 5:1.

/2 The balance \$0.15 billion is deposited with BOK.

/3 Excluding funds raised in foreign currency and converted into Won.

currency resources/<sup>1</sup> over the period 1975-82. Domestic currency resources mobilized independently by KDB comprising deposits and industrial finance debentures accounted for about 17% of the increase in KDB's domestic currency resources (Annex 2, Table 21).

4.29 Direct mobilization of domestic financial savings by KDB (i.e., deposits and debentures) grew rapidly in 1980 reaching nearly 22% of incremental domestic currency resources. However, this source of funding declined to 11.3% during 1981, and, only 2.9% for the first nine months of 1982. This decline was largely due to the sluggish sale of KDB's industrial finance debentures (IFDs) in the domestic market as yields were gradually lowered and uncertainties prevailed about the Government's future interest rate policy (Annex 2, Table 22). Sales of debentures during the last quarter of 1982 increased substantially as investors' inflationary expectations fell, so that for 1982, direct mobilization of financial savings accounted for a high 29.9% of incremental domestic currency resources. At end-1982, domestic debentures outstanding accounted for about 18% of KDB's long-term domestic currency resources outstanding. The fluctuations experienced in debenture sales reflect some of the constraints faced by KDB in relying on the debenture market for its domestic currency financing. First, the fixed interest rate offered on KDB's debentures <sup>/2</sup> can make the selling of these instruments difficult during periods when inflationary expectations are rising. Second, KDB has, in the past, used the proceeds from its debenture issues to make loans at variable interest rates or to purchase corporate debentures at fixed interest rates. For loans funded with debenture proceeds, KDB has been incurring negative spreads when interest rates declined. For example, during the last quarter of 1982, KDB was issuing new debentures at an effective rate of 11.98% to 14.62%, but the weighted average cost of outstanding debentures, including earlier issues, was 17.6% due to the relatively high fixed interest cost of debenture issues in 1980-81. However, loans made with debenture proceeds carried interest rates of only 10% p.a. following the June 1982 interest rate changes. The negative spread incurred on these loans has had an adverse impact on KDB's profitability and has encouraged KDB to place an increasing part of its debenture resources in the corporate bond market to improve earnings. Finally, KDB's flexibility in issuing debentures is impaired by the requirement that issues be approved by Parliament as a quid pro quo for the government guarantees backing KDB's debentures. This requirement is now obsolete as KDB's credit standing in financial markets is sufficiently established not to require further government guarantees. KDB's performance in mobilizing domestic currency resources has been limited

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<sup>/1</sup> 51.4% of total domestic and foreign resources.

<sup>/2</sup> In 1982, KDB has issued, for the first time, floating rate coupon IFDs with a 3 year maturity (about W 3 billion). The interest paid is fixed in the first year and is computed at 1.3 times the prevailing one year deposit rate for the second and third years.

and the degree of dependence on government funding remains very high. As long as the prospects for substantially increasing its direct mobilization of domestic resources (including deposits) are limited, KDB will need to convert some of its foreign commercial borrowings into domestic resources.

4.30 Foreign Currency. With respect to the mobilization of foreign currency resources, KDB's performance has been outstanding. Broadly speaking, KDB mobilizes two types of foreign currency resources. The first type is commercial funds, comprising syndicated commercial borrowings and private or public placements of foreign currency debentures (Annex 2, Table 23). The former carry a variable interest rate linked to LIBOR while the debentures have carried a fixed interest rate. The second type is foreign official borrowings, principally from IBRD and ADB (Annex 2, Table 24). Next to government funds, syndicated commercial borrowings have become the second largest source of funding for KDB. KDB's total annual borrowings have increased from \$25 million in 1970 to \$847 million in 1980 followed by a decline to \$630 million in 1981 and \$466.7 million in 1982. The substantial decline in KDB's foreign commercial borrowings over the period 1981-82 was due to the increasing tightness of international markets. By end-1982, outstanding foreign commercial borrowings amounted to about \$2.3 billion including \$249 million in foreign currency debentures. As indicated above (para. 4.27) approximately 63% of these funds have been converted into domestic currency and used to supplement KDB's domestic currency resources. The difficulties faced by KDB in lending converted foreign commercial funds have been outlined in paras. 4.22-4.23. KDB has also been obliged to lower its spread on foreign commercial funds onlent in foreign currency to maintain its competitiveness with foreign commercial banks operating in Korea. KDB's nominal interest spread on these funds has decreased from 1% in 1980 to 0.56% in early 1983 which provides KDB with an effective spread of 1.25%./1 This spread is adequate to cover administrative costs.

4.31 KDB's success in mobilizing foreign commercial borrowings has allowed a gradual reduction in its reliance on foreign official funds from about 46% of total foreign borrowings in 1966-77 to 9.3% for the period 1978-82. Foreign official funds carry a longer maturity than foreign commercial borrowings and are therefore utilized by KDB primarily to finance long gestation projects. While the weighted average maturity of its equipment loans still exceeds 8 years, in the past two years the maximum maturity of KDB's commercial borrowings has declined to 7-8 years as compared to the 10-year maturity of earlier borrowings. For this reason, KDB's reliance on foreign official borrowings is expected to continue, albeit at a lower relative level.

#### Operational Projections and Resource Requirements

4.32 Historically, the volume of KDB's lending operations has been limited by the availability of funds rather than loan demand. This situation

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/1 Assuming a LIBOR rate of 9.0%.

has changed significantly in recent months as industrial investment was sluggish and the cost of KDB's domestic currency lending rose above that of the commercial banks. Both constraints, however, are expected to be temporary and consequently, KDB's operational projections for the period 1983-86 have been primarily based on expected resource availability (Annex 2, Table 25). KDB expects its loan approvals to increase by 10% in 1983 and by an average of 17% p.a. for the period 1983-86.<sup>/1</sup> Compared to the historical growth rate of loan approvals of about 20% p.a. over the period 1978-81, these projections appear appropriate. The slower growth in the volume of loan operations results from the tight budgetary situation of the Government which is expected to have a direct impact on the funding of the special financing schemes administered by KDB. Loan demand by some of KDB's major clients might also decline as their ability to borrow directly from the domestic and international capital markets increases. Foreign currency loans are projected to account for around 19% of total commitments compared to about 16% over the period 1980-82.

4.33 As of December 31, 1982, KDB had total uncommitted long-term resources amounting to W 588.8 billion (\$785 million) compared to projected loan commitments of about W 1,729 billion (\$2.3 billion) in 1983, or nearly three times the size of the resources available for commitment. To meet its projected commitments, KDB plans to borrow approximately W 9,488 billion (\$12.6 billion) between 1983-86 (Annex 2, Table 26). Domestic currency resources, comprising government funds and domestic debentures, would amount to 71% of total resources mobilized between 1983-86, as against 61% for the period 1976-82. This would be closer to the currency mix of KDB's lending operations and would reduce the need to rely on conversion of foreign commercial funds to support domestic currency lending operations. But these projections are based on the optimistic assumption that KDB will be able to derive as much as 37% of its long-term domestic currency resources from sales of debentures in the period 1983-86 compared to 21% since 1981-82. Government funding, including budgetary allocations, equity contributions, and NIF, would remain the principal source of domestic resources with approximately 63% of total domestic resources compared to 95% in 1981-82. Foreign currency borrowings are projected to reach \$3.2 billion over the period 1983-86 with 16.7% (\$530 million) coming from official sources and the balance (83.3% or \$2.7 billion) from the international capital market. Overall, KDB's reliance on foreign currency resources would decline from 44% for the period 1981-82 to 28.9% for 1983-86. While, in the past, KDB has been extremely successful in mobilizing foreign commercial funds, its continued ability to do so will depend on several factors independent of KDB, such as the volume of resources the Government would permit KDB to raise in a given year within the framework of overall capital inflows, the health and

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<sup>/1</sup> Based on the projected 1983 allocation of funds, the sectors expected to benefit from KDB financing include heavy and chemical industries (22%), overseas marine and air transportation and semiconductors (14%), and working capital finance (27%).

viability of the international financial system and the financial community's perception of country risk. During the period in which the Bank loan is expected to be committed (last quarter 1983 to year-end 1985), KDB would commit \$1.3 billion in foreign currency loans. The proposed Bank loan of \$130 million would represent about 10% of KDB's projected foreign currency commitments and would be used primarily to finance longer maturity loans. In the past two years, loans with a maturity exceeding 10 years accounted for about 15% of KDB's total equipment financing. At negotiations, KDB reported on its plans regarding co-financing with foreign commercial resources for the 1983-85 period. This plan will be updated quarterly to show KDB's progress in reaching its borrowing targets.

4.34 Due largely to improving spreads, KDB's net profit is expected to increase from W 23.0 billion in 1983 to W 43.2 billion in 1986 (Annex 2, Table 28) for an annual average increase of 23%. Consequently, net profit as a percentage of average net worth would steadily increase from 3.3% in 1983 to 5.1% in 1986 (Annex 2, Table 30). At negotiations, KDB agreed to amend its Development Strategy Statement (Annex 2, Attachment 2) to reflect the objective that its future profitability, as measured by return on average equity, should be sufficient to maintain the value of its equity in real terms. During the projection period, KDB's debt-service cover ratio fluctuates between 1.3:1 and 1.2:1, which is satisfactory. The long-term debt/equity ratio remains within the contractual limit of 10:1 through 1984, but reaches 10.8:1 in 1985. KDB's share capital would therefore need to be increased in 1985.

#### C. Korea Long-Term Credit Bank (KLB)

4.35 The main issue facing KLB is that of further diversifying its domestic sources of funds and expanding the scope of its operations. From its establishment in 1967 as the Korean Development Finance Corporation (KDFC) to its conversion into the Korea Long-Term Credit Bank (KLB) in 1980, KDFC was dependent on foreign currency resources, primarily from the Bank, for close to 90% of its operations. Although KDFC's performance was outstanding with total assets growing at 43.5% p.a. in 1968-79 and reaching about \$430 million by end-1979, its management felt that growth prospects were adversely affected by a charter which precluded the mobilization of any domestic currency resources.<sup>/1</sup> Demand for domestic currency financing was bound to increase more rapidly as Korea became less dependent on foreign savings and the domestic machinery industry developed. In addition, the market for foreign currency lending was becoming extremely competitive with an increasing number of foreign bank branches operating in Korea and the most mature industrial firms increasingly able to mobilize overseas funding directly. However, mobilization of domestic currency resources could only be achieved by changing KDFC's legal status from a corporation operating under the General Commercial Code to a long-term credit bank established

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<sup>/1</sup> Except for equity resources.

under the Long-Term Credit Bank (LTCB) Act of 1979. In June 1980, KLB became the first institution to operate under the new law with authority to issue long-term domestic currency debentures and to accept deposits from its corporate borrowers.

4.36 KLB's domestic currency borrowing and lending operations expanded rapidly and its total assets grew by over 55% p.a./1 in the three-year period 1980-82. However, KLB experienced very serious difficulties in issuing debentures in the latter part of 1982 as investors were unwilling to purchase long-term, fixed rate savings instruments (para. 4.58). This problem highlighted KLB's excessive dependence on a single type of savings instrument to cover its domestic resource requirements. Moreover, the LTCB Act imposes a number of restrictions on KLB's credit operations (e.g. proportion of working capital financing, deposit taking, etc.) which reduce its flexibility and competitiveness vis-a-vis other financial institutions whose operations are being deregulated in the context of the Government's financial sector reform. To alleviate these problems, KLB is seeking a revision of the LTCB Act which would give it access to other types of domestic currency resources (e.g., investment trust accounts and general deposits) and would allow a diversification of its financial services (e.g. consumer financing, greater working capital financing authority, etc.)

4.37 The Bank supports KLB's request to amend the LTCB Act so as to increase its competitiveness in a liberalized financial system. The LTCB Act as it presently stands is in many respects a reflection of the past system of specialization and financial segmentation. Amendment of its most binding limitations would be in line with the mainstream of the Government's program of financial sector reform. KLB is currently discussing the reform of the LTCB Act with MOF and legislation is expected to be submitted prior to year-end 1983. The Bank has discussed possible reforms with KLB and will be consulted prior to the introduction of any major institutional changes.

#### KLB's Role in the Industrial and Financial Sectors

4.38 Background. KLB remains, to date, the only privately owned development finance institution in Korea, providing essentially medium and long-term foreign currency financing to private enterprise./2 Over the 1971-81 period, KLB has achieved an impressive record of operational growth while steadily developing its institutional strength. Despite its impressive growth, KLB remains a relatively small institution with total

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/1 From W 209 billion at end-1979 to W 803 billion at end-1982.

/2 KLB's short-term financing is limited to the small deposit base mobilized from corporate clients.

assets of W 804 billion (\$1.1 billion) at year-end 1982, approximately 1% of the total assets of the Korean financial system. KLB, however, is an important source of credit, particularly long-term, for industry. As of year-end 1981, KLB accounted for 5.3% of all outstanding equipment financing to the manufacturing sector.

#### Institutional Aspects

4.39 Management, Organization and Staffing. KLB's broad lending guidelines are established in its Policy Statement (Annex 3, Attachment 1). Overall policies and operational guidelines are laid down by the Board of Directors, while investment decisions are delegated to the Executive Committee (Annex 3, Table 1). KLB's President is assisted by a Deputy President and three Managing Directors. The current President, Mr. T.Y. Hahm, was appointed in February 1982. He has been with KLB since its early years and operated as Deputy President for the last few years. KLB's staff has increased considerably over the last few years in response to the growing volume of operations. Total staff have increased from 163 (84 professionals) in 1979 to 284 in 1982 (161 professionals). KLB currently operates five branch/subbranch offices /1 and expects to expand its branch network gradually (Annex 3, Chart 1). Overall, KLB is an extremely well managed and well organized institution. The high caliber of its staff has been maintained in recent years in spite of rapid growth.

4.40 Project Appraisal and Supervision. KLB's project appraisal work continues to be quite good with thorough coverage of financial, marketing and technical aspects. The FRR is routinely calculated for projects seeking financing in excess of US\$1 million while the ERR is calculated for foreign exchange loans in excess of US\$ 1 million equivalent. KLB's project supervision is, for the most part, based on reviewing the periodic reports and annual audited financial statements provided by the borrowers. More intensive supervision, including visits to project sites, is exercised whenever these reports or repayment difficulties indicate problems. Overall, KLB's appraisal and supervision standards are excellent and have largely contributed to the high quality of its portfolio.

4.41 Procurement and Disbursement Procedures. Procurement of equipment is closely supervised by KLB and may involve one of three methods: (a) international competitive bidding (ICB); (b) limited competitive bidding where at least three competitive quotations are required; and (c) the proprietary method where compatibility with existing equipment dictates procurement from a specific supplier. Since 1981, 92.9% of the procurement contracts financed by KLB were based on limited competitive bidding, 7.0% required proprietary procurement and only 1 project (0.1%) used international competitive bidding. KLB amended its Policy Statement in 1981 to reflect

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/1 Branches/subbranches are located in Central Seoul City, Busan, Daegu, Youngdong (suburb of Seoul) and Myungdong (center of Seoul).



its standard requirement that competitive procedures, including ICB, be applied whenever justified by the size and nature of procurement. KLB's disbursements are authorized in accordance with progress in project implementation and against proper documentation. Overall, KLB's procurement and disbursement procedures are in line with the Bank's requirements and are sound.

#### Resource Allocation

4.42 Overall Operations. Prior to its conversion into a long-term credit bank, KLB's operations had been growing at an average annual rate of about 30% over the period 1975-79. In 1980, however, total approvals reached W 169.6 billion (US\$256.1 million), an increase of 163% over 1979. Total approvals grew by about 50% in 1981, but declined by 32.4% in 1982 due to the poor investment climate and general business recession coupled with the difficulty KLB experienced in mobilizing domestic currency resources (Annex 3, Table 2). The following table summarizes KLB's credit operations over the period 1978-82.

CREDIT OPERATIONS /a , 1978-82  
(Won million)

	1978	1979	1980	1981	1982
Domestic currency loans/b	2,986	4,057	71,775	135,491	116,820
Debtenture purchases	-	810	11,067	21,890	11,627
Foreign currency loans /c	46,049	59,637	86,754	71,043	88,357
<u>Total</u>	<u>49,035</u>	<u>64,504</u>	<u>169,596</u>	<u>228,424</u>	<u>216,804</u>

/a On an approval basis.

/b Including revolving funds.

/c For 1981 and 1982 foreign currency loans are on a net of cancellation basis.

The spectacular increase in approvals during 1980-81 was spurred by the rapid growth of KLB's domestic currency lending operations following its conversion into a long-term credit bank. While domestic currency lending accounted for about 5% of total credit approvals for the period 1975-79, the proportion reached 60% for the period 1980-82.

4.43 Foreign Currency Lending Operations. Foreign currency approvals net of cancellations increased from \$94.9 million in 1978 to \$131.0 million in 1980, for an average annual growth rate of about 17.5%, prior to declining to \$101.1 million in 1981. Net approvals declined in 1981 due to

cancellations of \$40.2 million. /1 In 1982, net approval of foreign currency loans improved to \$117.7 million.

4.44 Domestic Currency Lending Operations. Domestic currency loan approvals increased from a low of W 3.2 billion in 1979 to W 68.9 billion in 1980 and W 128.9 billion in 1981. While demand for domestic currency loans remained quite high in 1982, for part of the year KLB was unable to meet this demand due to a lack of domestic currency resources as sales of debentures declined substantially in the period July-November 1982 to a total of W 16 billion compared to W 102.5 billion for the first six months of 1982./2 As a result, domestic currency loan approvals reached only W 112.8 billion, a 12.5% decrease over 1981. KLB's domestic currency medium-term working capital financing accounts for the bulk of its lending with 70% of domestic currency approvals in 1980-81 and 81% in 1982./3 The large proportion of working capital financing in 1982 reflects the tight liquidity position of the corporate sector and declining investment in fixed assets.

4.45 Characteristics of KLB's Lending Operations. The major characteristics of loans approved by KLB in the period 1968-82 are provided in Annex 3, Tables 3 and 4. For the period 1968-77, manufacturing accounted for 59.8% of KLB's total loan approvals. Except for 1981 /4 the share of manufacturing has been generally increasing and reached 70.4% as of 1982. Shipping is the next most important sector with 16.7% of total cumulative approvals over the period 1968-82. Average loan size tends to be large /5 as KLB's clientele belongs to the medium to large size group of industries. Very large companies, however, require more resources than KLB is able to provide and are clients of KDB and/or large commercial banks. The average maturity of loans which was 10.7 years for the period 1978-79, declined marginally to 8.2 years in 1982 as the emphasis shifted from large capital intensive projects. Lending to projects in Seoul and Kyunggi province, which surrounds Seoul, accounted for 41.2% of approvals over 1978-82.

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/1 Several shipping projects were cancelled due to worsening economic and business conditions.

/2 In December 1982 and early 1983, monthly sales improved to W 12-15 billion.

/3 For the 1975-79 period, working capital loans accounted for 20% of domestic currency loans.

/4 Manufacturing projects accounted for only 56.0% of approvals in 1981 because a large proportion (28%) of approvals went to shipping projects.

/5 Loans exceeding W 1.0 billion (about US\$1.3 million at the current exchange rate) have declined from 66% of total approvals in 1978-79, to 52.6% for the period 1980-82 due to the growing importance of working capital loans.

4.46 Investment Operations. Over the period 1968-82, equity investments have accounted for 3.0% of KLB's domestic currency operations with approvals reaching W 1.5 billion (US\$2 million) in 1982 (Annex 3, Table 2). Purchases of bonds and convertible debentures have increased substantially since KLB's conversion into a long-term credit bank, although annual approvals decreased to W 11.6 billion (\$15.5 million) in 1982 compared to W 21.9 billion (\$31.2 million) in 1981 due to KLB's domestic currency constraint (para. 4.58). At year-end 1982, KLB's outstanding equity and debenture portfolios amounted to W 7.6 billion (\$10.1 million) and W 27.3 billion (\$36.4 million), respectively (Annex 3, Table 5).

#### Economic Impact and Promotional Activities

4.47 The economic indicators of the 741 projects financed by KLB since its establishment in 1968 are summarized in Annex 3, Table 6. The aggregate investment cost of these projects is estimated at W 1.3 trillion of which KLB financed W 530.2 billion, or 39.8%. Export sales are estimated at US\$1.6 billion, or 33% of annual incremental sales. The investments financed by KLB are expected to create 54,068 jobs. The annual average cost per job of projects financed by KLB, however, has been steadily increasing from an average of W 7.8 million (\$20,400) for 1968-74 to W 73.9 million (\$98,500) in 1982 reflecting both the greater capital-intensity of the manufacturing sector in recent years and general inflation. In line with government priorities, and with the requirements of the LTCB Act, KLB has actively tried to promote small and medium enterprises/<sup>1</sup> through direct loans and, indirectly, through collaboration with some regional commercial banks (RCBs). Collaboration with the RCB's has been reduced in recent years as KLB's branch network developed and its domestic currency resource availability increased. However, the proportion of assistance to small- and medium-scale industries in KLB's total approvals has increased from 19.8% for 1975-79 to 26.6% in 1980-82 (Annex 3, Table 7).

4.48 Promotional Activities. KLB has been instrumental in promoting the establishment of new specialized financial institutions to increase the range of services available to Korean industries. Three non-bank financial institutions have been established in close collaboration with IFC: (a) the Korea Investment and Finance Corporation (KIFC) established in 1971 to assist in the development of private money and capital markets in Korea; (b) the Korea Development Leasing Corporation (KDLC) established in 1975 and geared in particular towards servicing smaller entrepreneurs who lack the capital and/or collateral needed for outright equipment purchases; and (c) the Korea Technology Advancement Corporation (KTAC) established in 1974 to promote new technologies based on patents and processes developed by domestic research agencies. KLB's management has also played an important role in developing and broadening the legal framework for the Korean

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<sup>1</sup> According to the official definition, small and medium enterprises include firms employing not more than 300 full-time employees, or not more than 500 employees for machinery manufacturing.

financial system. The LTCB Act was enacted in 1979 at the strong urging of KLB. The President of KLB is also an influential member of the Financial Reform Commission established in 1982 to advise the Government on matters related to financial reform.

4.49 Utilization of Bank Loans 1635-KO and 1932-KO. The Bank's seventh loan to KLB (Loan 1635-KO) for \$100 million has been fully committed and as of December 31, 1982, \$99.6 million had been disbursed. A total of 92 projects were financed whose total investment cost of \$411.9 million helped create 7,769 new jobs at a cost per job of about \$53,000. Calculations of the FRR and ERR for these projects provided weighted averages of 24.1% and 27.6%, respectively (Annex 3, Table 8). As of December 31, 1982, 52 projects had been financed under Loan 1932-KO at a total project cost of \$295.1 million; disbursements under the Bank loan reached \$55.8 million. Total financing provided by KLB amounted to \$134.0 million, including \$12.2 million equivalent in domestic currency financing, for an average loan size of \$2.6 million. Foreign currency financing provided by KLB comprised \$67.0 million from the proceeds of the Bank loan of the \$90 million and \$54.8 million cofinanced with ADB and commercial resources. Some 4,131 additional jobs would be created by these projects at a cost per job of \$71,400. Total incremental sales are expected to reach \$620 million with 39% export sales. The weighted average ERR and FRR are estimated at 22.5% and 22.0%, respectively (Annex 3, Table 9).

#### Financial Condition and Performance

4.50 Financial Condition. As of December 31, 1982, KLB's total assets amounted to W 803.8 billion (\$1.1 billion). From 1980-82, KLB's assets grew at an average annual rate of 59% compared to 41% for 1975-79. Asset growth prior to 1980 was based largely on the expansion of the foreign loan portfolio. Starting in 1980, however, KLB was able to raise Won currency resources, and its domestic currency portfolio /1 increased from of W 7.6 billion (\$15.6 million) in 1979 to W 256.4 billion (\$341.8 million) in 1982. As of December 31, 1982, 83.5% of KLB's total assets were financed by long-term liabilities, 7.3% by current liabilities and 9.2% by equity. Foreign currency borrowings accounted for 60.3% of long-term liabilities compared to 99.0% in 1979, reflecting KLB's increasing reliance on the debenture market. KLB began issuing debentures in 1980 and as of year-end 1982, outstanding debentures accounted for 39.7% of total long-term liabilities. In 1980, KLB increased its share capital from W 10 billion to W 50 billion. Largely due to this increase, KLB's total net worth has increased from W 19.8 billion in 1979 to W 72.7 billion in 1982 (Annex 3, Table 10).

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/1 Loans, debenture purchases and equity investments.

4.51 Debt/Equity Position. As of December 31, 1982, KLB's long-term debt/equity ratio reached 9.0:1; this ratio is projected to exceed the 10:1 contractual limit early in 1984. KLB originally intended to increase its paid-in capital in 1983. Due to a depressed stock market and a significant decline in KLB's profitability in the wake of successive lending rate reductions starting in 1980, these plans have had to be postponed. KLB now plans to build up its reserves before issuing new shares so as to be able to command a better price for its next issue. The Bank is willing to support this strategy and has agreed to raise KLB's long-term debt/equity limit to 12:1. This unusually high limit has been previously accepted by the Bank in cases where the institution concerned was both financially strong and well-managed. Such is the case for KLB whose loan portfolio is excellent as demonstrated by a collection ratio which has not fallen below 98% over the last 10 years.<sup>/1</sup> Arrearage ratios are even more favorable (para. 4.54). Furthermore, since its conversion into a long-term credit bank, KLB has evolved from being primarily reliant on foreign exchange funding to raising substantial amounts of long-term domestic currency resources. As should be expected from an institution increasingly involved in working capital financing, its aggregate debt/equity ratio should become increasingly comparable to that of a commercial bank. However, KLB's character remains quite different from that of a regular commercial bank since by law the minimum maturity of its loans is one year, even in the case of working capital loans. Unlike commercial banks whose long-term indebtedness is relatively small, the proportion of long-term debt to total liabilities is close to 100% for KLB and the long-term debt/equity ratio is relatively high. KLB's debt service and interest coverage ratios are adequate as is the current ratio (Annex 3, Tables 13 and 14).

4.52 Financial Performance. KLB's interest spread <sup>/2</sup> has been declining significantly from its high of 3.3% in 1980 to 1.1% in 1981 and 0.27% in 1982. This decline is largely attributable to the declining spread on KLB's loans made with debenture resources: while lending rates on these loans fell by 10.2 percentage points between June 1980 and June 1982, the weighted average cost of its debentures declined by only 6.3 percentage points.<sup>/3</sup> The slow decline in the average cost of outstanding debentures is due to: (a) the fixed interest cost attached to all KLB debentures issued through September 1982,<sup>/4</sup> and (b) the high nominal and real interest rates which

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<sup>/1</sup> The lowest level was 98.2% in 1974; in 1981 and 1982, it reached 99.5% and 99.4%, respectively, despite the prolonged business recession.

<sup>/2</sup> Income from loans as % of average loan portfolio less the cost of term debt as % of average term debt.

<sup>/3</sup> Lending rates fell from 34.0% to 23.9% while the weighted average cost of KLB's debentures declined from 30.5% to 24.3%.

<sup>/4</sup> In September 1982 KLB proceeded with its first issue of variable rate debentures.

still prevail in the bond market. At year-end 1982, the three- and five-year debentures issued by KLB in 1980 were still outstanding at a cost of 27-30% while new debentures were being issued at a cost of 11.98% to 14.62%. In the meantime, KLB's lending rate had been lowered not only for new loans but also for existing balances outstanding, /1 in order to maintain KLB's competitiveness, and avoid its loans being refinanced with less costly resources from other lenders, and to support government objectives to ease the burden of debt on the corporate sector. As a consequence, KLB's weighted average effective spread on loans funded with debentures declined from 3.52% in June 1980 to 2.08% by June 1981 and -0.37% in June 1982. Overall, KLB's spread on domestic currency loans was substantially negative in 1982. This was compensated for, however, by earnings on foreign currency loans, so that KLB was able to remain profitable in 1982. KLB expects the spreads on loans funded from debenture resources to improve /2 as the earlier and more expensive debenture issues are redeemed. Greater reliance on variable rate debentures (para. 4.58) and a greater stability of interest rates would help avoid a recurrence of this situation in the future.

4.53 Despite the decline in spreads, KLB's net earnings before tax increased from W 15.6 billion in 1980 to W 19.7 billion in 1981; in 1982 however, net earnings before tax came to only W 12.1 billion (Annex 3, Table 11). KLB's administrative and general expenses have been maintained at very low levels since 1979, amounting to no more than 1% of average total assets. Net profit after tax increased as a percentage of average total assets from 1.9% in 1979 to 3.5% in 1980, but fell to 2.6% in 1981 and 1.4% in 1982. KLB's return on equity increased from 17.1% in 1978, to 28.2% in 1980 but declined to 20.4% in 1981 and 14.0% in 1982. The lower return on equity has depressed the market value of KLB's shares in 1982, making it difficult for KLB to consider issuing more shares until profitability improves.

4.54 Quality of Portfolio. As of December 31, 1982, 15 loans were in arrears out of a total portfolio of 1,229 loans outstanding (1.2%). Total arrears of principal and interest amounted to W 1.4 billion, /3 or 0.2% of the outstanding portfolio. The portfolio affected by arrears represented only 0.7% of the total portfolio outstanding with provisions for possible losses of W 6.9 billion, or approximately 1% of the portfolio, which is

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/1 For loans with existing balances outstanding, KLB's rate decreased from about 30% to 20%.

/2 Spreads are projected to become positive once again in 1983.

/3 Of which W 0.7 billion were in arrears less than 3 months.

more than adequate. KLB's collection performance, as indicated by the arrears ratios, remains excellent. Despite a prolonged business recession, KLB's overall collection of principal and interest was 99.4% of the amounts due in 1982 (Annex 3, Tables 15, 16 and 17).

### Resource Mobilization

4.55 Overview. The following table shows the changes in the composition of KLB's outstanding resources over time (in Won billion).

As of Dec. 31	1975		1979		1980		1981		1982	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<u>Domestic</u>										
<u>Currency</u>										
Deposits	-	-	-	-	9.0	2.2	14.1	2.5	17.0	2.3
Govt. loan	2.0	3.9	1.9	0.9	1.8	0.4	1.7	0.3	1.7	0.2
Debentures	-	-	-	-	44.7	11.1	139.9	24.6	243.4	32.9
Equity	7.0	13.6	19.8	10.0	64.4	16.0	70.7	12.5	72.7	9.8
<u>Foreign</u>										
<u>Currency</u>										
	42.6	82.5	177.8	89.1	284.0	70.3	341.2	60.1	404.7	54.8
<u>Total</u>	<u>51.6</u>	<u>100.0</u>	<u>199.5</u>	<u>100.0</u>	<u>403.9</u>	<u>100.0</u>	<u>567.6</u>	<u>100.0</u>	<u>739.5</u>	<u>100.0</u>

There was little change in the composition of KLB's resources between 1975 and 1979. During the period 1976-79, KLB mobilized a net total of W 147.9 billion from two sources only: equity resources (paid-in capital and retained earnings) accounted for about 9% of the total and foreign borrowings for 91%. Profound changes occurred in the currency mix of KLB's resources following its conversion into a long-term credit bank in 1980. Foreign currency borrowings declined from 89.1% of total resources in 1979 to 54.8% by the end of 1982. During the period 1980-82, the net increase in KLB's total resources reached W540 billion with net foreign currency borrowings accounting for only 36% of the total increase in KLB's resources over 1980-82.

4.56 Foreign Currency Resource Mobilization. Until 1975, KLB was entirely dependent on official sources of funds such as ADB and IBRD for its foreign borrowings. KLB's first syndicated commercial borrowing was mobilized in 1976 with IFC's assistance. Foreign commercial borrowings increased rapidly from \$17.8 million in 1976 to a high of \$110 million in

1981. Since 1976, KLB has mobilized just over \$300 million from commercial sources. Three foreign loans were mobilized in 1981 for a total of \$110 million. This heavy borrowing program was in support of gross foreign currency loan approvals which reached \$141.3 million during that year. However, cancellation of some of these 1981 approvals reached over \$40 million due to the depressed economy and KLB's borrowing program was severely trimmed in 1982 to two Yen denominated commercial borrowings for \$45 million (Annex 3, Table 18).

4.57 KLB's success in mobilizing foreign currency resources from commercial sources has allowed a substantial reduction in its reliance on official sources of funds. The ratio of official to commercial borrowings has declined from 65:35 in 1978-79 to 44:56 in 1980-82. The World Bank has made eight loans totalling \$410 million to KLB since its establishment in 1968. ADB is the second largest source of official funding to KLB with four loans totalling \$180 million. The maximum maturity of the foreign commercial funds mobilized by KLB has declined in recent years from 10 years in the late 1970s to about 7 years. KLB has had to rely extensively on foreign official borrowings to fund the longer maturity equipment loans although the average maturity of KLB's equipment loans has declined to approximately 8 years. Official sources of funds will therefore remain an important element in KLB's foreign currency mobilizations although they will account for a declining proportion of foreign currency resources.

4.58 Domestic Currency Resources. Over the period 1980-82, equity resources accounted for about 17% of KLB's incremental domestic currency resources. Deposits from corporate clients have remained small with a share of about 5%. Since its conversion into a long-term credit bank, KLB has relied primarily on the issuance of debentures for its domestic currency requirements. Debentures provided about 78% of KLB's total domestic currency resources in 1980-82. Net proceeds of debenture issues increased from W 41.6 billion in 1980 to W 86.3 billion in 1981 and W 99.4 billion in 1982 (Annex 3, Table 19). However, during the third quarter of 1982, KLB had difficulty issuing new debentures due to: (a) the relatively low yield imposed by the Government on KLB's new issues compared to secondary market rates, and (b) a strong preference of savers for short-term instruments in anticipation of an increase in interest rates which depressed the sale of long-term fixed interest rate instruments. A first issue of variable rate debentures in September 1982 was designed to alleviate the latter constraint. The Government also allowed sales at a discount which increased effective yields. During the last quarter of 1982, debenture sales increased dramatically as investors' inflationary expectations fell.

4.59 Lending Rates. KLB's onlending rates for foreign official borrowings are fixed at 2% above borrowing cost for lending rates of 9.35% to 12.1% in 1982 compared to a lending rate of 15-16% on other domestic currency KLB loans. Considering that borrowers have to bear the foreign exchange risk on all foreign currency loans, the differential in nominal



interest rates is considered small between foreign and domestic currency loans by potential borrowers as the Won has depreciated by an average of 6% p.a. against the US dollar over the period 1967-82. However, KLB expects that borrower reluctance to accept foreign currency liabilities will decline as it is realized that low levels of inflation in Korea should reduce the magnitude of the adjustments in the parity of the Won. In 1982, KLB's foreign commercial loans denominated in dollars were on-lent at LIBOR + 2% and Yen-denominated loans carried a lending rate of 1.4% above the Japanese prime lending rate.

4.60 Audit. KLB's accounts have been audited in keeping with international accounting standards by the Samil Accounting Corporation, which is associated with the Coopers and Lybrand Group. The accounts have always been certified without qualification and the reports have met with the Bank Group's requirements. However, an understanding was reached at negotiations that future audit reports would provide an opinion as to the adequacy of provisions for losses.

#### Operational Projections and Resource Requirements

4.61 KLB's operational projections for the period 1983-87 are primarily based on expected demand (Annex 3, Table 21), but are conservative in that they do not take into account the possible expansion of KLB's business scope (outlined in KLB's Development Strategy Statement 1983-84 presented in Annex 3, Attachment 2). Over the 1983-87 period, KLB projects commitments on its lending operations (loans, debenture and equity investments) to grow at an average annual rate of about 25%; domestic currency commitments would increase at a rate of 29% and foreign currency commitments by about 18% p.a./1 KLB expects that out of total commitments of \$2.9 billion, 66% would be for domestic currency operations and the remaining 34% for foreign currency loans. As of year-end 1982, KLB had \$101.1 million available for further foreign currency commitments, compared to a projected foreign currency resource requirement of \$990 million for 1983-87. Domestic currency resources available for commitment amounted to W 81.2 billion while projected commitments for the 1983-87 period amount to W1.4 trillion (Annex 3, Table 20).

4.62 To meet its projected level of operations, KLB plans to mobilize W 2.3 trillion (\$3.1 billion) over the 1983-87 period, of which 67.5% would be in domestic currency and 32.5% in foreign currency (Annex 3, Table 22).

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/1 With regard to projected sectoral allocation, KLB would follow the Government guidelines on priority industries as established in the Five Year Plan, although it is expected that industries producing semiconductors will account for a significant proportion of KLB's assistance.

Nearly all of KLB's domestic currency resources (89%) would be derived from the sale of debentures, the balance coming from deposits. KLB expects its sale of debentures to increase from W 130.8 billion in 1982 to W 180 billion in 1983 and to further increase by W 60 billion each year through 1987. Of the W 810 billion (US\$1.1 billion) KLB plans to raise in foreign currency, 52.8% (\$570 million) would be from commercial sources and the remaining 47.2% (\$510 million) from foreign official sources. During the period in which the Bank loan is expected to be committed (last quarter 1983 to year-end 1985), KLB would commit \$415 million in foreign currency loans. The proposed Bank loan of \$120 million would be used primarily to finance longer maturity foreign currency loans and would represent about 30% of KLB's projected foreign currency commitments. In the past two years, loans with maturities exceeding 9 years accounted for about 40% of KLB's equipment financing. KLB provided at negotiations its plan for cofinancing with foreign commercial resources over the 1983-85 period. Progress made in reaching these borrowing targets will be monitored on a quarterly basis as part of KLB's regular reporting requirements.

4.63 KLB's net income is expected to gradually increase over the projection period from W 9.0 billion in 1983 to W 13.8 billion in 1987 due largely to improving spreads (Annex 3, Table 24). Consequently, return on equity would increase from 12.0% in 1983 to 13.6% in 1987 (Annex 3, Table 26). Throughout the projection period, KLB's debt-service cover ratio would remain at about 1.1:1, which is satisfactory. The long-term debt-equity ratio of 12:1 proposed under this loan would be adequate through 1985, after which KLB would need to consider raising additional share capital. If, however, the nature of KLB's operations and its funding sources change significantly in response to the proposed amendments of the LTCB Act (para. 4.35-37), the 12:1 debt/equity ratio could adequately cover KLB's operations for a longer time period.

#### D. Technical Assistance Component

4.64 The financial sector reform will necessitate a considerable upgrading of both the supervisory institutions and financial intermediaries to adapt to the new requirements of a financial system relying increasingly on market signals rather than government direction. The technical assistance component of the project would consist of (i) overseas training of selected staff from the Ministry of Finance (MOF), the Bank of Korea (BOK), the commercial banks and other financial institutions, to help introduce advanced management practices to the financial sector and foster greater efficiency in financial institutions in Korea; and (ii) computerization of data on financial transactions to modernize the fiscal management of the economy, to improve tax collection on interest and dividend income and to help improve the credit information system of commercial banks and other financial intermediaries.

## Training

4.65 Staff of MOF responsible for formulating policies for the financial sector would be trained abroad to improve their understanding of the policies and techniques associated with a liberalized financial system. Staff from the BOK would be trained in new skills and methods of supervision of financial institutions emphasizing ex post evaluation of financial performance rather than more detailed day-to-day involvement in operations of individual institutions. Management staff from the commercial banks would be trained in modern commercial banking practices in areas such as international banking, credit analysis and lending practices, project analysis and the use of modern banking technology. Staff of the non-bank financial intermediaries would be trained to acquire relevant skills in similar institutions in advanced countries. Staff from the Korea Banking Institute (KBI), who will administer the training program, would receive training in order to improve their capabilities in organizing domestic training programs. The training program to be financed under this loan would encompass: (a) seminar training lasting five-six weeks to be held at various institutes in the US, Japan and Europe; (b) on-the-job training at commercial banks, non-bank financial intermediaries, international organizations and government institutions in North America, Europe and Asia for periods lasting about six months; and (c) limited funding for graduate level studies in finance and economics.

4.66 The Government wishes to strengthen the training program of Korean financial intermediaries in order to upgrade their capacity to operate effectively in a more competitive environment. Particular emphasis is being placed on overseas training of senior management as this is the group which has been neglected in the past by formal training programs and which would best be able to implement new skills learned through such training. The proposed technical assistance component would strengthen the acquisition of banking know-how by higher working-level staff and expose senior bank management to advanced financial and managerial techniques.

4.67 The program included in the proposed project would train about 350 people over the 1983-85 period. With the total cost of overseas training estimated at \$2.5 million equivalent, the average cost per trainee would be about \$7,000. The actual number of people trained would be adjusted to accommodate changes in unit training costs.

4.68 Implementation of the training component would be coordinated and supervised by the Korea Banking Institute (KBI). KBI was established in 1976 by 11 banks, including BOK, to develop and administer training programs for Korean financial institutions. Over the years, it has acquired extensive experience in this field. KBI has prepared, with the assistance of local training experts, a pre-implementation study which was reviewed during

negotiations. The study tentatively identifies the training targets and requirements for the principal training beneficiaries. KBI has set up a Coordinating Board, consisting of a representative of the MOF and the training managers of the BOK and the national city banks, which will devise eligibility criteria for participants. KBI has also prepared a list of prospective overseas training institutions and will provide for the Bank's review, annual training programs based on its consultations with these institutions and the actual training demand of participating institutions.

4.69 The signing of an agency agreement between the Ministry of Finance and KBI, setting out KBI's responsibilities in executing the training component, would be a condition of disbursement for this portion of the project. The cost of the training would be borne by the participating financial institutions. For this purpose, the Government would make loans available to these institutions at the same interest rate as applicable to the Bank loan, with a maximum repayment period of 15 years, including a maximum grace period of 3 years. The foreign exchange risk would be borne by the participating institutions or agencies. The Government would enter into a standard subsidiary loan agreement, acceptable to the Bank, for the training program of each of the financial institutions. Bank approval of the standard subsidiary loan agreement would be a condition of disbursement for this component of the project.

#### Computerization Program

4.70 The computerization program would entail the analysis, design and testing of a system for comprehensive data processing of information supplied by the commercial banks and other financial institutions. Development of an effective data processing system would provide an orderly flow of financial information as required for more effective tax administration and improved fiscal management. The system would be designed by the Software Development Center (SDC), an affiliate of the Korea Advanced Institute of Science and Technology (KAIST). In addition to the system design, SDC would develop the necessary data base to implement the system and the multipurpose software of a management information system for institutions without computers. SDC would also develop, in consultation with the institutions concerned, a software package generating financial data for monetary authorities as well as for the institutions' own internal management.

4.71 The SDC was established within KAIST in 1967 under the direction of Dr. Ki Soo Sung, an internationally reputed computer scientist. The SDC is engaged in basic and applied research of software and information systems. Its staff comprises 400 highly competent computer scientists, divided into 14 major research groups, including the group responsible for implementing the computer component of the proposed project. The SDC has acquired the experience required in designing very large computer systems through a variety of software development projects for universities, medical institutions, industry and the Government as well as for institutions in Japan and the United States. The Center has two general

purpose computers and over 20 mini-micro computer systems with a nationwide network of on-line and batch terminals.

4.72 A design team of 40 computer and data system specialists has been assembled by Dr. Ki Soo Sung to implement the project whose basic design is at an advanced stage, with a manual procedure already in place. The project is being implemented under the overall guidance of a Computerization Committee chaired by the Vice Minister of Finance. A Bank computer expert visited Korea in April 1983 to advise SDC on the overall system design and particularly, on the strategy for data collection from financial institutions and on the minimum input requirements of the system. Further visits will be arranged as necessary to supervise the testing and the implementation of the entire computerization program. The Government has signed a contract with KAIST for the design and implementation of the system. Signature of a revised contract, including a more detailed scheduling of tasks and financing arrangements, would be a condition of disbursement for this component of the project.

4.73 The full implementation of the computerization program is expected to be completed by the end of 1984 at a total cost of about \$6 million, comprising expenditures of \$0.5 million in 1982, \$4 million in 1983 and \$1.5 million in 1984. The Government has been able to meet its \$0.5 million payment obligations to KAIST for initial design and development of the system in 1982. However, due to the tight budgetary situation of MOF for 1983, the Government expects to be able to appropriate only \$1.5 million of the \$4 million required under the contract for 1983 and has requested the Bank to finance the \$2.5 million balance.

## 5. THE PROPOSED BANK LOAN

### Benefits and Risks

5.01 Expected Benefits. The main benefits expected from the proposed loan are (a) the continuation of the Bank's support for the process of financial sector reform in Korea; (b) support of financially and economically viable industrial projects; and (c) a build up of institutional capabilities and skills in the financial system through technical assistance and training.

5.02 An important benefit of the loan is that it would facilitate a close and effective dialogue with the Government on financial sector policies. The impact of the reforms already implemented and the adoption of new policy measures would be monitored closely during supervision of the loan. This analysis would serve as the basis for further discussions between the Bank and the Government on the next steps towards financial sector reform which would provide the underpinnings of the Bank's subsequent financial sector loans.

5.03 The \$250 million credit component would serve to support deserving investment projects selected by KDB and KLB. Recent experience with projects financed by KDB and KLB suggests that approximately 160 subprojects would be financed under the credit component. Sample FRR and ERR computations for recent projects financed by these institutions with Bank funds show a weighted average of 22% and 32%, respectively. The projects to be financed under the proposed loan are expected to yield similar financial and economic returns.

5.04 The institution-building impact of the proposed loan is expected to benefit not only KDB and KLB, whose maturity and efficiency are already quite high, but also other financial institutions which would participate in the program of technical assistance. The greater skills and exposure to a different financial environment which the overseas training program would provide, would assist in the process of financial sector reform in Korea and would help lay the basis for a possible future participation of commercial banks in the next Bank-supported Industrial Finance Project. Finally, the program of computerization of financial sector transactions is expected to strengthen the Government's tax collection efforts while helping the financial sector set up a reliable credit information system.

5.05 Risks. The institutional risks involved in the proposed project are minimal. Both KDB and KLB have a long and excellent record showing their ability to administer satisfactorily the credit component. Similarly, KBI has developed extensive experience in the organization and supervision of overseas training courses. With appropriate staff strengthening, KBI should be in a position to handle satisfactorily the additional workload imposed by the training component. As for the computerization program, the introduction of a more effective credit and tax information system is a large and complex task which will need to be monitored carefully.

5.06 The main risks associated with the proposed loan relate to the program of financial sector reform and particularly the speed with which it is implemented. Too rapid a liberalization of the financial system could have a destabilizing effect on both the corporate and financial sectors which might jeopardize the existing consensus for reform. Conversely, a higher than expected rate of inflation or excessively slow liberalization of interest rates could maintain the differential between market rates and legislated rates and thus thwart some of the major objectives of the

financial sector reform. The Government is aware of these possible pitfalls and remains strongly committed to the reform process with the highest priority attached to maintaining inflation at a low level and bringing down inflationary expectations. Overall, the cautious and consistent approach to liberalization followed by the Government is reasonable and is likely to prove successful, facilitated, in part, by the expected economic recovery.

#### Features of the Proposed Loan

5.07 Relending Arrangements. The proposed Bank loan of \$255 million would be made to the Government at the Bank's standard variable interest rate. The 0.25% front-end fee will be paid to the Bank prior to the effectiveness of the proposed loan. The Government would relend \$130 million of the proceeds of the credit component to KDB and \$120 million to KLB on the same terms as the Bank's loan but with an additional administrative fee of 0.05%. The signature of subsidiary loan agreements, satisfactory to the Bank, between the Government and the two participating financial institutions would be a condition of effectiveness of the proposed loan. Relending arrangements and terms for the training subcomponent have been described in para. 4.69.

5.08 Relending Terms. Under the credit component, the foreign exchange risk would be passed on by the lending institutions to the final subborrowers. The participating financial institutions (KDB and KLB) would relend the proceeds of the credit component of the proposed loan at a variable interest rate of 2% above the effective borrowing cost inclusive of the front-end fee and the standard 0.05% administrative fee imposed by the Government. The 2% interest spread is in line with the general practice of Korean development banks when onlending foreign official borrowings and is adequate to cover the administrative costs involved. Based on the current Bank lending rate of 10.97% the final lending rate to subborrowers would be about 13% p.a.

5.09 Assuming that Korea's inflation rate remains comparable with that of its major trading partners, foreign exchange risks would be reduced substantially in coming years so that the effective cost of Bank funds would be in line with current market rates of interest in Korea and with the rates charged by KDB and KLB on long term loans (paras. 4.22 and 4.59). Given an expected rate of domestic inflation of less than 5% p.a. during the Fifth Plan period, these rates are highly positive in real terms. The variability of the lending rates applicable to Bank funds is not expected to cause any durable misalignment with domestic market rates as, historically, market

rates of interest in Korea have generally moved in line with international interest rates adjusted for the foreign exchange risk.

5.10 Amortization Schedule. The technical assistance component (training and computerization) would have a fixed amortization schedule and would be repaid by the Government in accordance with the standard terms applicable to Korea i.e. a 15-year maturity including a 3-year grace period. The credit component would have two separate adjustable composite amortization schedules, one for KDB and one for KLB, reflecting the aggregate amortization schedules of the subloans made by KDB and KLB, respectively. Individual subloans would have a maximum maturity of 13 years, including a normal grace period of three years. However, the Bank wishes to encourage the cofinancing of subprojects with foreign commercial borrowings mobilized independently by KDB and KLB. Some of these borrowings (e.g. floating rate notes) may have maturities of less than five years, substantially shorter than the 15-year maturity of Bank funds, thus making cofinancing more difficult. In such instances, the Bank would agree to fit the amortization of its funding around the shorter maturity of commercial funds by picking up the later maturities. The earlier principal repayments on cofinanced subloans would be assigned to the amortization of commercial borrowings and repayments to the Bank would start thereafter. For cofinanced subloans, an exception would be made to the normal grace period of three years by extending it to five years. The maximum maturity of 13 years would be unchanged. A similar facility was accorded to both KDB and KLB under the previous Bank loans (1932-K0 and 1933-K0). The proposed loan is expected to be fully committed in approximately two years and fully disbursed by end-1986. The estimated commitment and disbursement schedule of the proposed loan is provided in Annex 4, Table 1. The schedule for the credit component is based on the historical profile of KDB and KLB's disbursements.

5.11 Procurement. Procurement under the credit component would be made on the basis of the standard procurement procedures of KDB and KLB as described in paras. 4.10 and 4.41. These procedures have been reviewed and were found to ensure a satisfactory degree of competition while minimizing delays in procurement. Under the training component, the Bank would review and approve in advance, on a regular annual basis, the content, organization and costs of the training program. Contracts in excess of \$75,000 would be subject to the prior approval of the Bank. However, all training contracts would be subject to ex-post review. The selection of KAIST as the firm providing the software requirements under the computerization component has already been made by the Government. The Bank has reviewed the credentials and experience of KAIST and concluded that this institute has the competency needed to implement the program at a cost which appears reasonable by international standards. The signature of a revised contract between the Government and KAIST would be a condition of disbursement (para. 4.72).



5.12 Disbursements. Withdrawal and/or reimbursement requests would be presented to the Bank by the Government (i.e. MOF) under the training/computerization component for technical assistance. The technical assistance component would be disbursed against 100% of the cost of overseas training for the staff of supervisory agencies and eligible financial institutions. Expenditures financed under the training program would be reimbursed according to a statement of expenditure in cases where the amount involved is less than \$20,000. All related supporting documents including copies of contracts and evidence of payment would be retained in one central location and made available on request for review by Bank staff during supervision missions and would be audited annually by independent auditors acceptable to the Bank. For expenditures of \$20,000 or more, and for graduate studies, payments would be made directly to the institutions concerned. Under the computerization component, disbursements would be made against 100% of the 3 installments due to KAIST on or by September 9, 1983, October 21, 1983, and December 30, 1983 under the terms of the revised contract. The first payment to KAIST of \$0.5 million would not be tied to the completion of any specific task; the second and third payments of \$1 million each would be tied to the completion of specific products as set forth in the revised contract between KAIST and the Government. Under the credit component, withdrawal requests would be submitted directly by KDB and KLB. As with previous Bank loans to KDB and KLB, the proposed loan would be used to finance (a) 100% of the foreign exchange cost of goods and services imported directly by subborrowers; and (b) 60% of the cost in domestic currency (representing the estimated foreign exchange component) of locally manufactured or of locally procured imported goods and equipment.

5.13 Eligibility Criteria. The credit component of the proposed loan would be available for financing industrial projects selected and appraised by KDB and KLB. The bulk of the funds is expected to be allocated to the manufacturing sector although sectors such as agroprocessing, construction, mining, transportation and utilities would be eligible. The project is intended to finance mainly medium- and larger scale enterprises. Access to Bank funds would be limited to firms having a sound financial structure including a degree of indebtedness which is not excessive. To this end, the previous loans to KDB and KLB (1932-KO and 1933-KO), established a maximum debt/equity ratio of 5:1, inclusive of the proposed subloan, for eligible subborrowers. Under the proposed loan, this maximum ratio has been further reduced to 4.5:1. The objective of this requirement is to get project sponsors to make a satisfactory equity contribution to project financing.

5.14 Subloan Ceiling. To ensure that the proceeds of the proposed credit component are spread over a relatively large number of projects, the \$10 million ceiling imposed under the previous Bank loans to KDB and KLB would remain unchanged.

5.15 Free Limit. It is recommended that the free limit above which subproject appraisals are reviewed in detail by the Bank prior to approval remain unchanged at \$5 million for both KDB and KLB. With this limit, it is estimated that the Bank would review in detail about 15% of the total number of subprojects, accounting for approximately 25% of the proposed credit component.

Agreements and Understandings Reached at Negotiations

5.16 During loan negotiations, the following agreements were reached with the Korean Government:

(a) Conditions of Effectiveness:

- (i) the signature of two subsidiary loan agreements between the Government and KDB/KLB under terms and conditions satisfactory to the Bank would be a condition of effectiveness of the proposed loan (para. 5.07);

(b) Conditions of Disbursement:

- (i) the signature of an agreement acceptable to the Bank between KBI and the Government which would define the responsibilities of the implementing agency for the training component would be a condition of disbursement for this component of the proposed loan (para. 5.07). Approval by the Bank of a standard subsidiary loan agreement between the Government and the institutions participating in the training program would also be a condition of disbursement (para. 4.69); and
- (ii) the signature of a revised contract, acceptable to the Bank, between KAIST and the Government defining the activities and costs covered by the computerization component would be a condition of disbursement of the proposed loan (para. 5.07).

(c) Other Agreements:

- (i) The Bank and the Government would exchange views from time to time on the progress achieved in carrying out the programs of financial sector reform (para. 2.24);
- (ii) The specifics of KBI's annual training program would be submitted in advance to the Bank for its review (para. 4.68);
- (iii) Individual contracts for training in an amount exceeding \$75,000 would be subject to the Bank's prior approval (para. 5.11).

5.17 During negotiations, the Bank reached the following agreements with KDB and KLB which were recorded in the loan documents:

- (a) the maximum debt/equity ratio of eligible subborrowers, including the proposed subloan, would be 4.5:1 (para. 5.13);

- (b) the free limit on subloans, including other outstanding balances financed from prior Bank loans, would be \$5 million (para. 5.15);
- (c) the ceiling on individual subloans would be \$10 million (para. 5.14);
- (d) a long-term debt/equity ratio of 10:1 would be maintained by KDB (para. 4.34);
- (e) a long-term debt/equity ratio of 12:1 would be maintained by KLB (para. 4.51); and
- (f) KDB would maintain an average effective interest spread of at least 2% when onlending the proceeds of the foreign currency resources mobilized from commercial sources (para. 4.23).

5.18 The following understandings were reached at negotiations and recorded in the agreed minutes:

- (a) in support of the greater commercial orientation of its operations, KDB would maintain a spread on its credit operations which is sufficient to ensure a satisfactory level of profitability. At the minimum, KDB's return on equity should be equal to the rate of inflation in order to prevent an erosion of its equity base in real terms. This objective will be incorporated in KDB's Strategy Statement for 1983-85 (para. 4.34);
- (b) KDB has discussed with the Bank its 1983-85 plan for cofinancing with foreign commercial resources. KDB will report to the Bank on a quarterly basis on the progress made towards reaching its borrowing targets as part of the regular reporting requirements (para. 4.33);
- (d) KLB's cofinancing plans have also been discussed at the time of negotiations and it was agreed that progress reports will be submitted to the Bank on a quarterly basis (para. 4.62);
- (d) KLB has agreed to require its auditors to express an opinion as to the adequacy of provisions for bad debts (para. 4.60).

#### Recommendation

5.19 A Bank loan of \$255 million with a maturity of 15 years including 3 years of grace is recommended.

KOREA

INDUSTRIAL FINANCE PROJECT

Structure of Financial System  
(in billion won)

	1975		1981		Average Annual Rate of Growth 1975-81 (% 1975 prices)
	Total assets	/a %	Total assets	/a %	
<b>A. Monetary System</b>	<b>7,735.7</b>	<b>80.4</b>	<b>43,278.2</b>	<b>70.6</b>	<b>11.5</b>
1. The Bank of Korea	2,173.7	22.6	8,569.6	14.0	5.2
2. Commercial Banking System	5,562.0	57.8	34,708.6	56.6	13.5
A. Commercial Banks	3,632.5	37.7	21,088.4	34.4	12.2
(i) 5 nationwide commercial banks	2,889.6	30.0	15,753.1	25.7	9.7
(ii) 10 local banks	513.9	5.3	2,456.0	4.0	8.6
(iii) Branches of foreign banks	229.0	2.4	2,879.3	4.7	27.6
B. Specialized Banks	1,929.5	20.1	13,620.2	22.2	15.9
(i) Korea Exchange Bank	694.8	7.2	5,072.0	8.3	16.6
(ii) Small-Medium Industry Bank	283.1	2.9	1,959.2	3.2	15.5
(iii) Citizens National Bank	265.7	2.8	2,033.7	3.3	17.5
(iv) Korea Housing Bank	167.7	1.7	1,653.7	2.7	22.5
(v) Credit Sector of Agric. Cooperatives	457.4	4.8	2,562.9	4.2	11.5
(vi) Credit Sector of Fisheries Cooperatives	60.8	0.6	338.7	0.6	11.4
<b>B. Nonbank Financial Institutions</b>	<b>1,887.8</b>	<b>19.6</b>	<b>17,233.3</b>	<b>29.4</b>	<b>21.0</b>
1. Development Banks	931.4	9.7	6,735.0	11.1	16.4
A. Korea Development Bank	848.5	8.8	5,117.2	8.3	12.3
B. Korea Long Term Credit Bank	52.6	0.6	610.0	1.0	25.9
C. Korea Export-Import Bank	30.3	0.3	1,007.8	1.6	50.1
2. Trust Accounts	244.4	2.5	3,394.6	5.5	29.7
3. Insurance Companies	206.7	2.2	2,233.3	3.6	24.4
A. Life Insurance Companies	105.4	1.1	1,470.3	2.4	29.8
B. Non-Life Insurance Companies	101.3	1.1	763.0	1.2	17.2
4. Short-Term Finance Companies /c	295.0	3.1	3,426.5	5.6	25.9
5. Mutual Savings and Finance Companies	63.7	0.7	799.8	1.3	27.6
6. Postal Savings Accounts	47.0	0.5	6.0	0.0	-59.4
7. Securities Firms	99.6	1.0	638.1	1.0	14.0
A. Korea Securities Finance Corp.	26.9	0.3	154.3	0.3	12.0
B. Securities dealers & brokers (net)	55.2	0.6	312.2	0.5	11.7
C. Investment trust companies (net)	17.5	0.2	171.6	0.2	22.4
8. Merchant Banks	-	-	816.8	1.3	-
<b>Total</b>	<b>9,623.5</b>	<b>100.0</b>	<b>61,328.3</b>	<b>100.0</b>	<b>13.7</b>

/a In current prices. Acceptances & guarantees are excluded for commercial banks, specialized banks and KDB.

/b GNP deflator (1975=100) used to derive real values.

/c Including notes sold without recourse of W 73.3 million in 1975 and W 1,815.9 million in 1981.

AEP Projects Department  
June 1, 1983

KOREAINDUSTRIAL FINANCE PROJECTOutstanding Loans to the Manufacturing Sector by Sources  
(in million won)

	December 31, 1981	
	Amount	Percent
<b>A. Working Capital Loans</b>		
Commercial banks	5,601,966	71.1
Savings institutions	-	-
KDB	666,994	8.5
KLB	-	-
SMIB	922,061	11.7
CNB	227,576	2.9
KEB	462,637	5.8
Eximbank	568	-
Life Insurance Co.	-	-
General Insurance Co.	-	-
Subtotal	7,881,802	100.0
<b>B. Equipment Loans</b>		
Commercial banks	2,090,820	31.3
Savings institutions	665,311	9.9
KDB	1,241,383	18.6
KLB	357,841	5.3
SMIB	370,722	5.5
CNB	19,736	0.3
KEB	539,943	8.1
Eximbank	947,033	14.2
Life Insurance Co.	426,994	6.4
General Insurance Co.	28,773	0.4
Subtotal	6,688,556	100.0
<b>C. Total Loans</b>		
Commercial banks	7,692,786	52.8
Savings institutions	665,311	4.6
KDB	1,908,377	13.1
KLB	357,841	2.4
SMIB	1,292,783	8.9
CNB	247,312	1.7
KEB	1,002,580	6.9
Eximbank	947,601	6.5
Life Insurance Co.	426,994	2.9
General Insurance Co.	28,773	0.2
Total	14,570,358	100.0

Source: Bank of Korea.

AEP Projects Department  
June 1, 1983

KOREA

INDUSTRIAL FINANCE PROJECT

Long-Term Manufacturing Sector Financing from  
Overseas Sources and Capital Market  
(US\$ million)

	1975		1976		1977		1978		1979		1980		1981	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<u>Domestic Currency</u>														
Stocks	113.8	9.9	205.1	13.4	147.6	6.9	290.9	8.2	339.4	11.8	54.9	2.4	40.8	1.8
Corporate bonds	65.6	5.7	164.4	10.8	289.1	13.5	496.9	14.1	959.2	33.4	1,073.0	47.7	976.7	42.9
Subtotal	179.4	15.6	369.6	24.2	436.7	20.4	787.8	22.3	1,298.6	45.2	1,127.9	50.1	1,017.5	44.7
(W million)/a	(87,014)		(179,271)		(211,784)		(382,073)		(629,859)		(744,416)		(716,725)	
<u>Foreign Currency</u>														
Direct foreign investment	/b	-	/b	-	36.4	1.7	76.7	2.2	124.3	4.3	98.1	4.4	86.4	3.8
Official loans	39.3	3.4	15.9	1.0	16.6	0.8	23.4	0.6	25.0	0.8	74.2	3.3	12.5	0.5
Commercial loans /c	537.9	46.7	631.0	41.3	892.5	41.6	1,307.3	37.0	440.0	15.3	477.3	21.2	592.7	26.0
Cash loans /d	109.7	9.5	124.5	8.2	416.9	19.4	858.8	24.3	465.0	16.2	410.1	18.2	579.3	25.5
Trade credit /d	284.8	24.8	385.6	25.3	344.9	16.1	480.1	13.6	522.4	18.2	62.5	2.8	-11.9	-0.5
Subtotal	971.7	84.4	1,157.0	75.8	1,707.3	79.6	2,746.3	77.7	1,576.7	54.8	1,122.2	49.9	1,259.0	55.3
(W million)/a	(470.3)		(560.0)		(826.3)		(1,329.2)		(764.7)		(740.7)		(868.8)	
Total	1,115.1	100.0	1,526.6	100.0	2,144.0	100.0	3,534.1	100.0	2,875.3	100.0	2,250.1	100.0	2,276.7	100.0

/a Exchange rate used: US\$1 = W 485 for 1975-79; W 660 for 1980; and W 704 for 1981.

/b Direct investment of the manufacturing sector for the period 1972-76 amounted to US\$1.7 million.

/c By corporate borrowers; excludes loans channelled through financial intermediaries.

/d Long-term portion.

Source: BOK and the Securities Supervisory Board of Korea.

AE2 Projects Department

June 1, 1983

## KOREA

## INDUSTRIAL FINANCE PROJECT

## Key Aspects of Financial Sector Reform

Measures taken to June 1983	Measures planned for 1983-85	Expected impact on financial and corporate sector	Projected contribution to economic development
<b>Interest Rates</b>			
1. Positive deposit and lending rates in real terms.	1. Market determination of level and structure of rates for all institutions.	1. Autonomy of financial institutions in determining rates on saving and lending. Improved profitability without government subsidies. Greater institutional efficiency through more competitive environment.	1. Greater efficiency in resource mobilization and allocation.
2. Wider spread (2%) between deposit (8%) and lending rates (10%).	2. Study need for adjusting legislated interest rates to differentiate rates in accordance with term and maturity (as interim measure prior to 1 above).	2. Encouragement of longer-term savings and lending. Greater willingness to take risks in lending.	2. Higher levels of domestic financial savings. Reduction in foreign savings dependence.
3. Reduced segmentation of lending rates by adjusting all bank rates to 10%.	3. Study means of reducing risks associated with fixed deposit rate system and variable lending rates (as interim measure prior to 1 above).	3. Maintain interest spreads and profitability at more stable level over time.	3. Autonomy and responsibility of financial system.
4. Partial deregulation of rates for nonbank intermediaries.	4. Study introduction of new savings instruments such as commercial bank debentures and long-term negotiable certificates of deposit.	4. Increased resource mobilization, particularly longer-term instruments.	
<b>Liberalization of Commercial Banks</b>			
1. Sale to private investors of Government equity holdings.	1. Authorization of new activities for banks, including trust investment accounts, mutual savings deposits, credit card and factoring.	1. Increased diversification of savings and credit instruments. Greater competition between banks and nonbanks. Improved financial services for general public.	1. Decentralization of investment and financing decisions. Lesser role of Government in resource allocation.
2. Licensing of two new nationwide joint venture banks.	2. Expanded branch network for regional banks.	2. Decrease in specialization and segmentation of the financial system. Specialization on the basis of comparative advantage and efficiency.	2. Greater efficiency of resource allocation.
3. Simplification of Government regulatory controls over banking, particularly on organization, budget and staffing.	3. Broadened activities for specialized banks and for development banks such as KDB and KLB.	3. Increased efficiency of financial system while improving profitability and financial autonomy.	3. Elimination of Government subsidies needed to maintain profitability of financial system.
4. Authorization to deal in short-term commercial paper and government securities.	4. Adjustment of spreads as needed to ensure financial autonomy.	4. Fair competition in financial system.	
5. Licensing of 43 new mutual savings finance companies and 10 new short-term finance companies.	5. Strengthening of staff training.		
6. Passage of legislation for establishing a deposit insurance system for NBFI.			
<b>Supervision of Financial Institutions</b>			
1. Simplification of banking regulations.	1. Introduction of a new system of supervision based on ex post review of performance.	1. Increased autonomy of management of financial institutions and reduction in the role of Government.	
	2. Training of staff in supervisory agencies in new methods of financial supervision.	2. Improvement in skills of supervisory agencies. Change in focus.	
	3. Study possibility of consolidating supervisory activities of MOF and BOK.	3. Encouragement of despecialization of institutions and increased efficiency of supervision.	
<b>Directed Credit</b>			
1. Removal of interest subsidies on directed credit programs.	1. Reduction of the share of NIF in total private domestic credit from 9.3% in 1982.	1. Reduce distortions in credit allocations.	1. Reduce Government intervention in resource allocation.
2. Allocation of NIF resources by Government on a sectoral basis rather than enterprise by enterprise.	2. Phase out handling of NIF by commercial banks by end-1984 and administration by specialized and development banks only.	2. Reduction in Government intervention in operation of private banks.	2. Resource allocation on the basis of investment incentives in the real sector.
	3. Reduction in commercial bank contributions to NIF from their deposit resources.	3. Improvement in allocation of long-term NIF credit through better loan appraisal.	
		4. Reduction in the seignorage exercised by Government.	
<b>Corporate Finance</b>			
1. Reduction in corporate income tax.	1. Encouragement to retained earnings by lowering the impact of double taxation for closed corporations.	1. Incentive to retain earnings and to increase equity by issuing shares in the stock market.	1. Reduction in the debt/equity ratio of the corporate sector. More stable growth prospects.
2. Lowering borrowing cost of outstanding borrowings.	2. Incentives for investment of long-term contractual savings in the stock market.		
	3. Stricter requirements of maximum indebtedness imposed by lenders and greater recourse to foreclosures against insolvent borrowers.		

KOREA

INDUSTRIAL FINANCE PROJECT

Letter of Development Policy for the Financial Sector

Dear Mr. Clausen:

1. I am writing in connection with the proposed loan for the Industrial Finance Project to inform the International Bank for Reconstruction and Development of the status of our financial policy reform and the actions the Government has already taken or proposes to take to reform Korea's financial system. The ultimate goal is to liberalize the financial system which would promote the national economy by increasing resource mobilization and allocating credit in a more efficient manner. Central to these objectives would be allowing market forces to determine interest rates, deregulating the activities of financial institutions and reducing the role of Government in credit allocation.

2. The reform is expected to (a) improve resource allocation by decentralizing decision making so that both financial institutions and entrepreneurs can respond more easily to market forces; and (b) enhance efficiency in financial intermediation as banking institutions are subjected to greater competition through freer entry and less legislated specialization. While the liberalization process must be effected gradually as too precipitous action could have destabilizing effects for both the financial system and the corporate sector, the Government remains firmly committed to realizing the objectives of full financial liberalization as rapidly as possible.

3. In this letter, I will describe in more detail the Government's objectives and planned course of action in five major areas of policy reform:

- (a) Interest Rates;
- (b) Liberalization of Commercial Banks;
- (c) Bank Supervision;
- (d) Directed Credit; and
- (e) Corporate Debt.

Interest Rates

4. The Government's longer-term objective as outlined in the fifth Five-Year Plan (1982-86) is to allow market forces to determine the level and structure of interest rates. However, there are a number of constraints which make it difficult to move immediately to full liberalization of



interest rates including the volatility of international interest rates, the heavy indebtedness of the corporate sector and the persistence of the gap between administered and market rates of 7% as measured by the differential between bank deposit rates and the secondary market yields on bonds and debentures. Consequently, the Government will pursue a pragmatic, step by step approach which will involve incremental adjustments of selective rates to bring them more closely in line with market rates as economic conditions permit and will concentrate on creating the economic conditions which will permit the eventual full liberalization of interest rates.

5. In June 1982, the Government introduced a new interest rate structure for banking institutions providing for a lending rate of 10% and a deposit rate of 8%. These rates are positive in real terms given the current inflation rate of less than 5% and take into account the need to stimulate economic growth and keep the debt burden to the corporate sector lower than in the past. The new rates greatly simplified the previous multiple rate structure by eliminating a number of specialized, subsidized rates and provided a wider spread between the deposit and lending rates.

6. The Government is committed to maintaining positive real rates that provide for a deposit rate higher than the rate of inflation (as measured by the consumer price index) and a spread between deposit and lending rates sufficient to ensure the profitability of the commercial banks. In setting interest rates, the Government will also take into account trends in the domestic economy, the balance of payments position and interest rate movements in international financial markets. The Government will also seek to narrow the differential between the administered and secondary market rates by making strong efforts to hold down the rate of inflation and thus lower inflationary expectations. Once this has occurred, the Government would be in a position to liberalize interest rates so that they are determined by market forces.

7. In the meantime, there are two issues which the Government will address (a) differentiation of rates to take into account risk and maturity; and (b) the possible means of avoiding the negative consequences for bank profits of fixed rate deposit contracts and variable lending rates. With respect to more differentiation in the rate structure, this would ideally be achieved with the liberalization of interest rates which would allow market forces to create an appropriate interest differential. However, the Government is studying some possible interim options which include; (a) changes in legislated interest rates which would allow the banks to mobilize longer-term deposits and to charge higher rates for longer-term or high risk loans; and (b) as a further step towards liberalization, the introduction of new longerterm savings instruments by commercial banks which would allow them to raise funds at higher rates with the understanding that these could be lent with a positive spread or used to buy corporate bonds. Possible instruments might include large denomination, long-term negotiable certificates of deposit and bank debentures. In both cases, and in setting the effective yields on

primary issues on corporate bonds and finance debentures, rates would be closely related to rates in the secondary markets.

8. With respect to the negative effects on bank profitability of variable lending rates and fixed deposit contracts, we recognize that the present system can cause serious financial problems for the commercial banks and will study this matter further to see whether adjustments in current banking practice are desirable.

9. I would be happy to inform the World Bank of the progress in our study of the issues in paras. 7 and 8 by the end of 1983 and periodically thereafter.

#### Liberalization of Commercial Banks

10. The longer-term policy objective of the Government is to enhance Korea's economic growth prospects by improving efficiency and competitiveness of the financial sector, and particularly of its most important component, the commercial banking sector. These objectives will be achieved by the privatization of bank's ownership, the licensing of new banks, greater autonomy of management and a broadened scope of activities in order to reduce specialization and increase competition.

11. With respect to privatization of ownership, four of the five nationwide commercial banks have already been denationalized. Government ownership in the fifth one will be sold in March 1983. In order to prevent ownership control by a single interest group, restrictions were placed on maximum equity holdings and voting rights. Two new joint venture banks have been authorized and established in 1982 and the Government is committed to encouraging further new entries to the commercial banking system. Competition in the financial sector will also be encouraged by the licensing of 43 new mutual savings and finance companies and 10 short-term finance companies in 1982. In order to increase management efficiency and entrepreneurship in the banking sector, the Government has greatly reduced its controls over bank organization, budget and staffing. The Korea Bankers' Association agreement has also been revised to eliminate restrictions of competition such as prescribed charges and service fees.

12. To further strengthen their capital base, the commercial banks are planning to increase their equity by 30% in 1983. To further strengthen the earning potential of the banks and foster competition within the financial system, the Government will authorize banks to undertake new activities including trust activities, mutual savings deposits, short-term commercial paper, credit cards, factoring and underwriting of government securities. Additional measures will also be introduced to increase competition among banks by permitting an expansion in the geographical coverage of regional banks and broadening the activities of the specialized banks. The Financial Review Committee, as a matter of priority, will during 1983 consider possible adjustments in the role of specialized banks to give them greater latitude in

raising and lending resources. I will be happy to keep the World Bank informed of developments, particularly since several of these institutions are clients of the World Bank. With respect to the possible future role of KDB, the Government recognizes that if KDB is authorized to expand substantially its commercial activities, it will be essential to segregate its funding and accounts as a commercial entity from those as a government agent and ensure that KDB in its commercial role does not compete with the private sector relying on preferential treatment from the Government.

13. As noted earlier, the profitability of the commercial banks in 1982, was low. However, this is expected to be a temporary phenomenon as the recent increase in the banks' interest spread to 2% is expected to improve profits. the Government plans to adjust interest rates and spreads to eliminate subsidies on the Central Bank rediscounts when the profitability of banks has improved to a satisfactory level. Recognizing the need to improve skills in the banking sector, the Government will play an active role in assisting the banks to develop effective training programs for their staff.

#### Bank Supervision

14. The privatization and deregulation of the commercial banks has brought with it the need to revise the system of bank supervision. The Government is moving from a system of ex ante involvement in the operations of commercial banks to a system of supervision involving ex post review of performance based on standards established by the Government. This new system will be put into effect during 1983. The Monetary Board and the Superintendent of Banks are in the process of training staff to develop the skills needed for effective bank supervision in the new system. The Government is also considering the possibility of unifying supervisory functions for banks and nonbank financial intermediaries as a response to the decreasing specialization of financial institutions which is a central feature of the financial sector reform.

#### Directed Credit

15. The longer-term objective of the financial sector liberalization is to ensure that efficient resource allocation is taking place on the basis of market prices. The Government will therefore gradually reduce the proportion of directed credit in total domestic credit.

16. Major steps have already been taken by the Government towards reducing the importance of directed credit. The number of existing directed credit programs has been reduced and the creation of new types of selective lending will be discouraged. The interest rate subsidies associated with the directed credit programs have been eliminated by bringing their lending rate to the same level as the general lending rate of 10%. In addition, the allocation of funds under the directed credit programs is now done on a broad sectoral basis rather than enterprise by enterprise as a means of increasing the autonomy of resource allocation by handling banks.

17. In the future, the NIF program, which amounted to 9.4% of total domestic credit to the private sector in 1981 and 9.3% in 1982 will be gradually reduced. In line with this reduction, the Government will adjust downward the contribution made by banks to NIF from their deposit resources. In accordance with the policy of liberalizing the activities of the commercial banks, responsibility for handling the NIF program will be fully transferred to the specialized banks by the end of 1984. Moreover, it is the Government's intention that directed credit programs, including NIF, will continue to operate on a non-subsidized basis in the future.

#### Corporate Indebtedness

18. The package of policy measures adopted by the Government in June 1982 to stimulate the economy has had a favorable impact on the profitability of the corporate sector. The lower interest rates which reduced borrowing costs and the reduction of the corporate tax rates have combined to improve the financial position of firms. Efforts have also been made to improve the incentive to retain earnings and improve the equity position of enterprises through a tax exemption on reserves and alleviation of the tax on assumed dividends for closed corporations.

19. In the future, the Government will continue to help reduce the debt burden of the corporate sector by maintaining optimum growth and restraining inflation. The prime bank system will be strengthened so that it can perform an increasing role in improving the financial management and structure of enterprises. The prime banks will be encouraged to liquidate outstanding loans to enterprises which are insolvent and unpromising. The Government will also consider measures to foster the development of the equity market by encouraging long-term contractual savers such as insurance companies and pension funds to invest in stocks.

KOREA

INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Board of Directors  
(As of February 28, 1983)

Name	Position	Background
Chang Nak Choi	Governor	Appointed in January 1982. Previously Vice-Minister of Economic Planning Board. Career spent mainly in EPB.
Joon Park	Deputy Governor	Appointed in August 1980. Previously auditor of KDB. Joined KDB in 1942. Appointed Executive Director in 1971, Auditor in 1978.
Chung Hyun Oh	Executive Director	Appointed in 1980. Joined KDB in 1955. Appointed Director in 1975.
Chung Hyun Son	Executive Director	Appointed in 1980. Joined KDB in 1952. Appointed Director in 1975.
Yong Sup Cho	Executive Director	Appointed in 1980. Joined KDB in 1954. Appointed Director in 1973.
Sung Sook Hong	Executive Director	Appointed in 1980. Joined KDB in 1954. Appointed Director in 1974.
Young Bok Kang	Executive Director	Appointed in 1981. Joined KDB in 1955. Appointed Director in 1975.
In Yung Chung	Executive Director	Appointed in 1983. Joined KDB in 1955. Appointed Director in 1976.
Byong Taek Kim	Executive Director	Appointed in 1983. Joined KDB in 1956. Appointed Director in 1978.

AEPID  
February 1983

KOREA

INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Summary of Loan Operations, 1977-82  
(Won million)

	1977	1978	1979	1980	1981	1982
	Amount /a	Amount /a	No. Amount	No. Amount	No. Amount	No. Amount
<b>Approvals</b>						
Domestic currency capital loans	245,873	406,350	277 545,624	375 616,804	397 672,373	452 840,437
Domestic currency working capital loans	58,929	59,878	222 204,684	536 458,841	512 411,798	589 489,704
<u>Total Domestic Currency Loans</u>	<u>304,802</u>	<u>466,228</u>	<u>499 750,308</u>	<u>911 1,075,645</u>	<u>909 1,084,171</u>	<u>1,041 1,330,141</u>
Foreign currency loans	41,582	121,845	204 207,495	164 221,043	133 186,404	235 241,717
<u>Total Approvals</u>	<u>346,384</u>	<u>588,073</u>	<u>703 957,803</u>	<u>1,075 1,296,688</u>	<u>1,042 1,270,575</u>	<u>1,276 1,571,858</u>
<b>Commitments</b>						
Domestic currency capital loans	245,873	406,350	277 545,624	375 616,804	397 672,373	452 840,437
Domestic currency working capital loans	58,929	59,878	222 204,684	536 458,841	512 411,798	589 489,704
<u>Total Domestic Currency Loans</u>	<u>304,802</u>	<u>466,228</u>	<u>499 750,308</u>	<u>911 1,075,645</u>	<u>909 1,084,171</u>	<u>1,041 1,330,141</u>
Foreign currency loans	41,403	121,845	199 205,385	164 221,043	133 186,404	235 241,717
<u>Total Commitments</u>	<u>346,205</u>	<u>588,073</u>	<u>698 955,693</u>	<u>1,075 1,296,688</u>	<u>1,042 1,270,575</u>	<u>1,276 1,571,858</u>
<b>Disbursements</b>						
Domestic currency capital loans	245,873	406,350	277 545,624	375 616,804	397 672,373	452 840,437
Domestic currency working capital loans	58,929	59,878	222 204,684	536 458,841	512 411,798	589 489,704
<u>Total Domestic Currency Loans /b</u>	<u>304,802</u>	<u>466,228</u>	<u>499 750,308</u>	<u>911 1,075,645</u>	<u>909 1,084,171</u>	<u>1,041 1,330,141</u>
Foreign currency loans /c	40,352	113,074	189 189,342	158 219,693	130 183,687	232 227,836
<u>Total Disbursements</u>	<u>345,154</u>	<u>579,302</u>	<u>688 939,650</u>	<u>1,069 1,295,338</u>	<u>1,039 1,267,858</u>	<u>1,273 1,557,977</u>
<b>Repayments</b>						
Domestic currency capital loans	40,307	77,501	42 93,047	53 142,114	60 192,033	109 253,480
Domestic currency working capital loans	27,217	51,965	71 82,014	145 135,490	210 287,850	325 348,338
<u>Total Domestic Currency Loans</u>	<u>67,524</u>	<u>129,466</u>	<u>113 175,061</u>	<u>198 277,604</u>	<u>270 479,883</u>	<u>434 601,818</u>
Foreign currency loans /c	9,624	14,260	49 70,027	87 50,522	95 67,914	120 111,388
<u>Total Repayments</u>	<u>77,148</u>	<u>143,726</u>	<u>162 245,088</u>	<u>285 328,126</u>	<u>365 547,797</u>	<u>554 713,206</u>
<b>Outstanding</b>						
Domestic currency capital loans	795,395	1,124,244	630 1,576,821	952 2,051,511	1,289 2,531,831	1,632 3,118,808
Domestic currency working capital loans	107,176	115,089	282 237,759	673 561,110	975 685,058	1,239 826,424
<u>Total Domestic Currency Loans</u>	<u>902,571</u>	<u>1,239,333</u>	<u>912 1,814,580</u>	<u>1,625 2,612,621</u>	<u>2,264 3,216,909</u>	<u>2,871 3,945,232</u>
Foreign currency loans	105,328	204,142	317 323,457	388 492,628	423 608,401	535 724,849
<u>Total Approvals</u>	<u>1,007,899</u>	<u>1,443,475</u>	<u>1,229 2,138,037</u>	<u>2,013 3,105,249</u>	<u>2,687 3,825,310</u>	<u>3,406 4,670,081</u>

/a Number of loans not available for 1977/78.

/b According to the standard banking practice in Korea, KDB credits its subborrowers' domestic currency loan accounts immediately after making a commitment. Consequently, domestic currency commitments are equal to disbursements in all the years. The amounts not drawn down by the subborrowers from their respective loan from their respective loan accounts are shown under "Credit Control Account" - a current liability item.

/c Includes adjustments in loan amounts on account of exchange rate fluctuations.

KOREA  
INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Characteristics of Loans Committed during 1978-82  
and Outstanding as of December 31, 1982  
(Won billion)

	Commitments												Outstanding as of December 31, 1982											
	1978		1979		1980		1981		1982		1982		Capital loans			Working capital loans			Total					
	Amount	%	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./b	Amount	%	No./b	Amount	%	No./b	Amount	%	%
<b>Type of Assistance</b>																								
Domestic currency	466	79.3	499	750	78.5	911	1,076	83.0	909	1,084	83.5	1,041	1,330	84.6	474	3,119	84.2	205	826	85.5	491	3,945	84.5	
Foreign currency	122	20.7	199	206	21.5	164	221	17.0	133	187	14.7	235	242	15.4	193	585	15.8	38	140	14.5	188	725	15.5	
<b>Total</b>	<b>588</b>	<b>100.0</b>	<b>698</b>	<b>956</b>	<b>100.0</b>	<b>1,075</b>	<b>1,297</b>	<b>100.0</b>	<b>1,042</b>	<b>1,271</b>	<b>100.0</b>	<b>1,276</b>	<b>1,572</b>	<b>100.0</b>	<b>667</b>	<b>3,704</b>	<b>100.0</b>	<b>244</b>	<b>966</b>	<b>100.0</b>	<b>679</b>	<b>4,670</b>	<b>100.0</b>	
<b>Ownership</b>																								
Private sector	291	49.4	625	527	55.1	974	899	69.3	934	832	65.5	1,219	1,082	68.8	645	2,099	56.7	236	893	92.4	657	2,992	64.1	
Public sector	297	50.6	73	429	44.9	101	398	30.7	108	439	34.5	57	490	31.2	22	1,605	43.3	8	73	7.6	22	1,678	35.9	
Of which companies under SAF	(7)	(1.2)	(2)	(81)	(8.5)	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>588</b>	<b>100.0</b>	<b>698</b>	<b>956</b>	<b>100.0</b>	<b>1,075</b>	<b>1,297</b>	<b>100.0</b>	<b>1,042</b>	<b>1,271</b>	<b>100.0</b>	<b>1,276</b>	<b>1,572</b>	<b>100.0</b>	<b>667</b>	<b>3,704</b>	<b>100.0</b>	<b>244</b>	<b>966</b>	<b>100.0</b>	<b>679</b>	<b>4,670</b>	<b>100.0</b>	
<b>Nature of Project</b>																								
New	199	33.9	156	258	26.9	223	296	22.8	258	408	32.1	263	443	28.2	306	1,338	36.1	-	-	-	306	1,338	28.6	
Expansion	326	55.4	246	464	48.6	305	538	41.5	176	366	28.8	272	461	29.3	318	2,291	61.9	-	-	-	318	2,291	49.1	
BMR /c	3	0.5	75	26	2.7	11	4	0.3	92	37	2.9	55	32	2.0	43	75	2.0	-	-	-	43	75	1.6	
Working capital	40	10.2	221	208	21.8	536	459	35.4	516	460	36.2	686	636	40.5	-	-	-	244	966	100.0	244	966	20.7	
<b>Total</b>	<b>588</b>	<b>100.0</b>	<b>698</b>	<b>955</b>	<b>100.0</b>	<b>1,075</b>	<b>1,297</b>	<b>100.0</b>	<b>1,042</b>	<b>1,271</b>	<b>100.0</b>	<b>1,276</b>	<b>1,572</b>	<b>100.0</b>	<b>667</b>	<b>3,704</b>	<b>100.0</b>	<b>244</b>	<b>966</b>	<b>100.0</b>	<b>679</b>	<b>4,670</b>	<b>100.0</b>	
<b>Size of Loan (W billion)</b>																								
Up to 50	7	1.2	75	11	1.1	131	7	0.5	67		0.3	79	4	0.3	54	9	0.2	16	2	0.2	55	11	0.2	
50-100	21	3.6	186	40	4.2	173	20	1.6	146	4	1.2	189	25	1.6	77	25	0.7	32	9	0.9	77	34	0.8	
100-300	51	8.7	122	129	13.6	288	85	6.5	276	15	5.0	305	69	4.4	181	168	4.5	51	53	5.5	185	221	4.7	
300-1,000	126	21.4	172	263	27.6	295	235	18.1	342	63	16.5	426	280	17.8	222	541	14.6	71	230	23.8	222	771	16.5	
1,000-2,000	97	16.5	125	197	20.7	118	212	16.4	118	210	15.2	139	228	14.5	65	384	10.4	39	265	27.4	72	649	13.9	
Over 2,000	286	48.6	18	313	32.8	70	738	56.9	93	193	61.8	138	966	61.4	68	2,577	69.6	35	407	42.2	68	2,984	63.9	
<b>Total</b>	<b>588</b>	<b>100.0</b>	<b>698</b>	<b>955</b>	<b>100.0</b>	<b>1,075</b>	<b>1,297</b>	<b>100.0</b>	<b>1,042</b>	<b>1,271</b>	<b>100.0</b>	<b>1,276</b>	<b>1,572</b>	<b>100.0</b>	<b>667</b>	<b>3,704</b>	<b>100.0</b>	<b>244</b>	<b>966</b>	<b>100.0</b>	<b>679</b>	<b>4,670</b>	<b>100.0</b>	
<b>Maturities</b>																								
<b>Capital Loans</b>																								
Up to 4 years	3	0.5	22	2	0.3	55	18	2.1	37	13	1.6	25	10	1.1	13	22	0.6	-	-	-	13	22	0.4	
4-8 years	251	47.6	199	410	54.9	256	497	59.4	362	511	63.0	391	464	49.6	436	1,817	49.0	-	-	-	436	1,817	38.9	
8-10 years	190	36.0	102	233	31.2	157	200	23.8	112	212	26.1	132	209	22.3	118	947	25.6	-	-	-	118	947	20.3	
10-15 years	61	11.5	54	71	9.6	20	49	5.9	16	43	5.3	34	109	11.6	76	218	5.9	-	-	-	76	218	4.7	
Over 15 years	23	4.4	76	29	4.0	21	74	8.8	2	32	4.0	8	144	15.4	24	700	18.9	-	-	-	24	700	15.0	
<b>Subtotal</b>	<b>528</b>	<b>100.0</b>	<b>453</b>	<b>747</b>	<b>100.0</b>	<b>539</b>	<b>838</b>	<b>100.0</b>	<b>529</b>	<b>811</b>	<b>100.0</b>	<b>590</b>	<b>936</b>	<b>100.0</b>	<b>667</b>	<b>3,704</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>667</b>	<b>3,704</b>	<b>79.3</b>	
<b>Working Capital Loans</b>																								
Up to 6 months	5	9.4	110	47	22.6	143	64	14.0	65	22	4.8	127	67	10.5	-	-	-	5	11	1.1	5	11	0.2	
1/2-1 year	19	31.7	42	58	27.9	97	71	15.5	48	41	8.9	87	114	17.9	-	-	-	19	82	8.5	19	82	1.8	
1-2 years	9	16.2	31	26	12.9	119	97	21.2	288	229	49.8	338	244	38.4	-	-	-	105	394	40.8	105	394	8.4	
2-3 years	19	32.8	49	50	24.0	137	141	30.6	92	141	30.6	116	166	26.1	-	-	-	91	349	36.1	91	349	7.5	
Over 3 years	6	9.9	13	26	12.6	40	86	18.7	20	27	5.9	18	45	7.1	-	-	-	24	130	13.5	24	130	2.8	
<b>Subtotal</b>	<b>60</b>	<b>100.0</b>	<b>245</b>	<b>208</b>	<b>100.0</b>	<b>536</b>	<b>459</b>	<b>100.0</b>	<b>513</b>	<b>460</b>	<b>100.0</b>	<b>686</b>	<b>636</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>244</b>	<b>966</b>	<b>100.0</b>	<b>244</b>	<b>966</b>	<b>20.7</b>	
<b>Total</b>	<b>588</b>	<b>-</b>	<b>698</b>	<b>955</b>	<b>-</b>	<b>1,075</b>	<b>1,297</b>	<b>-</b>	<b>1,042</b>	<b>1,271</b>	<b>-</b>	<b>1,276</b>	<b>1,572</b>	<b>100.0</b>	<b>667</b>	<b>3,704</b>	<b>100.0</b>	<b>244</b>	<b>966</b>	<b>100.0</b>	<b>679</b>	<b>4,670</b>	<b>100.0</b>	

/a Number of loans (not available for some years and categories).

/b Number of companies (not available for some categories).

/c Balancing, modernization and replacement.

KOREA  
INDUSTRIAL FINANCE PROJECT  
The Korea Development Bank  
Sectoral and Geographical Distribution of Loans Committed  
1978-82 and Outstanding as of December 31, 1982  
(Won billion)

	Commitments															Outstanding as of December 31, 1982									
	1978			1979			1980			1981			1982			Working Capital loans			Total						
	Amount	%	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./b	Amount	%	No./b	Amount	%	No./b	Amount	%		
<b>Sectoral Distribution</b>																									
Manufacturing Industries	290	49.2	414	549	57.4	767	745	57.4	753	681	53.6	962	902	57.4	408	1,428	38.6	169	371	90.2	419	2,299	49.2		
Consumer Goods	15	2.5	62	52	5.0	154	65	5.0	131	47	3.7	166	128	8.1	86	118	3.2	40	73	7.6	86	191	4.1		
Of which:																									
Textiles, wearing apparel & leather	11	1.9	41	32	3.4	75	35	2.7	105	45	3.5	75	33	2.1	43	59	1.6	23	50	5.2	43	109	2.3		
Intermediate Goods	101	17.2	133	172	18.0	241	199	15.3	201	183	14.4	209	254	16.2	86	264	7.2	36	114	11.8	88	378	8.1		
Of which:																									
Chemicals, rubber & plastics	45	7.6	52	39	4.1	117	61	4.7	135	57	4.5	166	113	7.2	75	178	4.8	33	73	7.6	75	251	5.4		
Petroleum & coal	5	0.8	12	50	5.3	17	33	2.6	55	30	2.4	26	82	5.2	7	43	1.2	2	6	0.6	7	49	1.1		
Capital Goods	174	29.5	212	323	33.8	350	480	37.0	401	450	35.4	543	515	32.8	224	1,023	27.6	90	678	70.2	233	1,701	36.4		
Of which:																									
Metals	114	18.4	126	177	18.6	185	223	17.2	229	204	16.1	146	154	9.8	43	390	10.5	20	217	22.5	45	607	13.0		
Machinery	27	4.6	45	66	6.9	109	141	10.9	186	282	22.2	197	233	14.8	82	446	12.0	33	254	26.3	86	700	15.0		
Others	/c	-	7	2	0.2	22	1	0.1	20	1	0.1	44	5	0.3	12	23	0.6	3	6	0.6	12	29	0.6		
Nonmanufacturing Industries	298	50.8	284	487	42.6	308	552	42.6	289	590	46.4	314	670	42.6	259	2,276	61.4	75	95	9.8	260	2,371	50.8		
Of which:																									
Elec. & waterworks	148	25.5	73	154	16.2	85	121	9.4	18	158	12.4	9	154	9.8	7	837	22.6	1	1	0.1	7	838	17.9		
Transportation	82	14.0	121	169	17.7	166	214	10.5	237	338	26.6	208	463	29.5	156	1,249	33.7	26	78	8.1	157	1,327	28.4		
Total	588	100.0	698	956	100.0	1,075	1,297	100.0	1,042	1,271	100.0	1,276	1,572	100.0	667	3,704	100.0	244	966	100.0	679	4,670	100.0		
<b>Geographical Distribution</b>																									
Seoul City	251	42.7	285	395	41.3	431	632	48.7	258	482	37.9	262	843	53.6	132	2,000	54.0	54	288	29.8	135	2,288	49.0		
Busan City	28	4.8	29	78	8.1	72	31	2.4	97	73	5.7	134	99	6.3	89	277	7.5	20	50	5.2	89	327	7.0		
Gyunggi Province	57	9.6	82	91	9.5	197	86	6.6	198	152	12.0	288	113	7.2	148	182	4.9	53	131	13.6	154	313	6.7		
South Chung-Cheong Province	5	1.0	19	21	2.2	23	19	1.5	26	14	1.1	49	20	1.3	28	85	2.3	10	10	1.0	28	95	2.0		
North Chung-Cheong Province	14	2.3	35	42	4.4	38	49	1.5	38	37	2.9	38	17	1.1	19	40	1.1	5	8	0.8	19	48	1.0		
Kang-Won Province	10	1.7	37	31	3.2	22	15	1.2	43	42	3.3	38	21	1.3	14	73	2.0	3	13	1.4	14	86	1.9		
South Jeon-ra Province	57	9.7	71	67	7.1	74	41	3.1	38	15	1.2	40	35	2.2	48	95	2.6	14	40	4.1	48	135	2.9		
North Jeon-ra Province	2	0.4	25	25	2.6	26	11	0.8	49	273	21.5	76	18	1.2	24	34	0.9	11	10	1.0	24	44	1.0		
South Kyung-Sang Province	99	16.8	56	119	12.5	101	316	24.4	216	109	8.6	274	334	21.2	100	595	16.0	54	369	38.2	103	964	20.6		
North Kyung-Sang Province	65	11.0	42	82	8.6	89	126	19.7	79	74	5.8	72	69	4.4	58	319	8.6	16	46	4.8	58	365	7.8		
Che-ju Island	-	-	17	5	0.5	2	1	0.1	-	/c	-	5	3	0.2	7	4	0.1	4	1	0.1	8	5	0.1		
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total	588	100.0	698	955	100.0	1,075	1,326	100.0	1,042	1,271	100.0	1,276	1,572	100.0	667	3,704	100.0	244	966	100.0	679	4,670	100.0		

/a Number of loans (not available for 1977-78).

/b Number of companies.



KOREA

INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Summary of Investment Operations, 1977-82  
(Won million)

	1977	1978	1979	1980	1981	1982
<u>Equity Investment</u>						
Total investment at the beginning of the year	160,238	217,361	273,516	300,391	473,199	516,828
New investment during the year						
Direct purchases	61,551	77,714	24,495	144,255	37,463	1,846
Loan conversion	2,066	5,550	2,380	31,400	5,000	-
Transfer from Government	-	-	-	-	17,086	-
Subtotal	63,617	83,264	26,875	175,655	59,549	1,846
Investments sold during the year	6,494	27,109	-	2,847	15,920	33,899
Net investments at the end of the year						
Direct purchases	140,469	209,952	234,447	375,855	394,800	406,787
Loan conversion	22,294	9,796	12,176	43,576	44,524	42,217
Transfer from Government	54,598	53,768	53,768	53,768	77,504	35,771
Total Investments at the End of the Year	217,361	273,516	300,391	473,199	516,828	484,775
<u>Bonds and Debentures</u>						
Total investment at the beginning of the year	17,527	23,236	26,384	31,791	42,021	107,034
New investment during the year	8,241	3,755	8,983	12,168	75,239	92,511
Investments sold during the year	2,532	607	3,576	1,938	10,226	43,531
Net Investments in Bonds and Debentures at the End of the Year	23,236	26,384	31,791	42,021	107,034	156,014
<u>Total Investments</u>						
Total investment at the beginning of the year	177,765	240,597	299,900	332,182	515,220	623,862
New investment during the year	71,858	87,019	35,858	187,823	134,788	94,357
Investments sold during the year	9,026	27,716	3,576	4,785	26,146	77,430
Net Investments at the End of the Year	240,597	299,900	332,182	515,220	623,862	640,789
<u>Income from Investment Portfolio</u>						
Dividend	5,572	5,748	12,399	8,289	10,052	5,995
(as % of the average equity investments)	(3.0)	(2.3)	(4.3)	(2.1)	(2.0)	(1.2)
Capital gains realized	5,640	7,991	-	792	5,263	1,365
(as % of cost of investment sold)	(86.8)	(29.5)	(-)	(27.8)	(33.1)	(4.0)
Dividend income plus capital gains	11,212	13,739	12,399	9,081	15,316	7,360
(as % of average equity investments)	(5.9)	(5.6)	(4.3)	(2.3)	(3.1)	(1.5)
Interest income from bonds & debentures	1,807	2,408	2,858	5,044	13,151	21,087
(as % of average bond & debentures investments)	(8.9)	(9.7)	(9.6)	(13.7)	(17.6)	(16.0)
Total income from total investment portfolio	13,019	16,147	15,257	14,125	28,467	28,447
(as % of total average investment portfolio)	(6.2)	(6.0)	(4.8)	(3.3)	(5.0)	(4.5)

KOREA

INDUSTRIAL FINANCE PROJECT  
The Korea Development Bank

Characteristics of Equity Investments Committed During  
1978-82 and Outstanding as of December 31, 1982  
(Won billion)

	Commitments during the year															Outstanding as of December 31, 1982		
	1978			1979			1980			1981			1982					
	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./b	Amount	%
Type of Investment																		
Domestic currency	26	82	99.0	16	25	96.1	16	175	99.6	15	59	98.3	2	2	100.0	31	479	98.8
Foreign currency	4	1	1.0	1	1	3.9	-	1	0.4	1	1	1.7	-	-	-	3	6	1.2
Total	30	83	100.0	17	26	100.0	16	176	100.0	16	60	100.0	2	2	100.0	34	485	100.0
Ownership																		
Private sector	8	10	11.7	15	12	46.3	13	31	17.5	14	8	12.7	1	2	100.0	25	167	34.4
Public sector	22	73	88.3	2	14	53.7	3	145	82.5	2	52	87.3	1	/a	-	9	318	65.6
(Of which companies under SAF)	(2)	(1)	(1.0)	(1)		(3.0)	(-)	(-)	(-)									
Total	30	83	100.0	17	26	100.0	16	176	100.0	16	60	100.0	2	2	100.0	34	485	100.0
Nature of Project																		
New	2	14	17.5	3	11	44.2	2	155	88.2	3	21	25.5	-	-	-	7	142	29.3
Existing	28	68	82.5	14	15	55.8	14	21	11.8	13	39	74.5	2	2	100.0	27	343	70.7
Total	30	83	100.0	17	26	100.0	16	176	100.0	16	60	100.0	2	2	100.0	34	485	100.0
Size of Investment (W billion)																		
Up to 50	5	/d	0.2	1	/d	/c	-	-	-	-	-	-	-	-	-	2	/d	/c
50-100	3	/d	0.3	1	/d	0.4	1	/d	0.1	1	1	1.7	-	-	-	1	/d	/c
100-300	3	1	0.8	-	-	-	-	-	-	-	-	-	1	/d	-	4	3	0.6
300-1,000	7	5	5.6	4	2	8.2	6	4	2.3	5	2	3.4	-	-	-	5	8	1.7
1,000-2,000	5	6	7.4	-	-	-	2	4	2.0	2	1	1.7	1	2	100.0	9	20	4.1
Over 2,000	7	71	85.7	11	25	91.4	7	168	95.6	8	56	93.2	-	-	-	13	454	93.6
Total	30	83	100.0	17	27	100.0	16	176	100.0	16	60	100.0	2	2	100.0	34	485	100.0
Sectoral Disbursement																		
Manufacturing Industries	21	70	84.0	10	20	74.9	6	163	92.5	10	54	90.0	-	-	-	12	406	83.7
Consumer goods	6	2	2.5	-	-	-	-	-	-	-	-	-	-	-	-	4	7	1.4
Intermediate goods	6	26	30.5	-	-	-	-	-	-	-	-	-	-	-	-	2	75	15.5
Capital goods	9	42	51.0	10	20	74.9	6	163	92.5	10	54	90.0	-	-	-	6	324	66.8
Other	-	-	-	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-
Nonmanufacturing Industries	9	13	16.0	7	7	25.1	10	13	7.5	6	6	10.0	2	2	100.0	22	79	16.3
Total	30	83	100.0	17	26	100.0	16	176	100.0	16	60	100.0	2	2	100.0	34	485	100.0
Geographical Distribution																		
Seoul City	9	31	37.3	6	9	33.1	7	12	7.1	6	5	8.3	2	2	100.1	22	177	36.5
Busan City	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	19	3.9
Kyunggi Province	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	180	37.1
South Chung-Cheong Province	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	/d	/c
North Chung-Cheong Province	7	14	16.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kang-Won Province	-	-	-	-	-	-	-	-	-	-	1	1.7	-	-	-	-	-	-
South Jeon-ra Province	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
North Jeon-ra Province	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South Kyung-Sang Province	3	4	4.8	9	16	59.8	9	163	92.5	10	53	88.3	-	-	-	2	7	1.4
North Kyung-Sang Province	9	32	38.6	1	2	6.7	-	-	-	-	-	-	-	-	-	2	96	19.8
Che-ju Island	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	2	2	2.4	1	-	0.4	-	1	0.4	-	1	1.7	-	-	-	3	6	1.3
Total	30	83	100.0	17	27	100.0	16	176	100.0	16	60	100.0	2	2	100.0	34	485	100.0

/a Number of investment operations.  
/b Number of companies.  
/c Less than 0.1%.  
/d Less than W 1 billion.

AEPID  
February 1983

KOREA  
INDUSTRIAL FINANCE PROJECT

Korea Development Bank  
Summary of Guarantee Operations, 1978-82  
(Won million)

	Commitments during the year					Outstanding as of December 31				
	1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
Foreign Currency Guarantees /a	1,446,598	1,073,693	2,131,374	2,029,716	978,001	3,805,599	3,580,790	4,592,344	4,444,638	3,803,139
Of which:										
Covered under GRA /b	1,035,767	622,372	1,359,294	1,309,167	548,635	2,968,636	2,707,197	3,406,330	3,491,207	2,942,572
Covered by GOK	1,669	451	2,060	-	-	11,531	5,134	1,592	418	762
Of which:										
Also covered under GRA	1,614	451	1,852	-	-	9,572	4,423	1,119	418	762
Domestic Currency Guarantees	40,675	68,750	103,386	24,352	262,836	92,739	141,420	200,971	152,475	292,459
<u>Total Guarantees</u>	<u>1,487,273</u>	<u>1,142,443</u>	<u>2,234,760</u>	<u>2,054,068</u>	<u>1,240,837</u>	<u>3,898,338</u>	<u>3,722,210</u>	<u>4,793,314</u>	<u>4,597,113</u>	<u>4,095,598</u>
Guarantees Redeemed	867,779	1,318,571	1,163,657	2,250,269	1,742,352	-	-	-	-	-
Guarantee Commission Earned	-	-	-	-	-	15,972	17,371	21,161	21,774	19,936
(As % of average outstanding guarantees)	-	-	-	-	-	0.41	0.47	0.44	0.47	0.49

/a New foreign currency guarantees issued during the years 1978 through 1981 can be reconciled after the following adjustments:

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
New foreign currency guarantees	780,123	503,128	369,948	769,739	381,707
Increase from variations in foreign exchange rates	445,575	279,492	1,055,951	421,084	283,314
Other increases	27,694	55,168	413,894	558,775	96,496
Guarantees on letter of credit	193,206	235,904	291,581	280,118	216,484
<u>Total</u>	<u>1,446,598</u>	<u>1,073,692</u>	<u>2,131,374</u>	<u>2,029,716</u>	<u>978,001</u>

Increases from variations in foreign exchange rates arise because of KDB's policy to adjust the recorded value of foreign currency guarantees at the time a transaction occurs in respect of specific guarantees.

/b Guarantee Release Arrangement dated March 31, 1975 between the Government of Korea and KDB.

## KOREA

## INDUSTRIAL FINANCE PROJECT, THE KOREA DEVELOPMENT BANK

## The Korea Development Bank

Characteristics of Guarantees Committed During 1978-82  
and Outstanding as of December 31, 1982  
(Won billion)

	Commitments during the year										Outstanding as of		
	1978		1979		1980		1981		1982		No./c	Amount	%
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>Type of Assistance</b>													
Domestic currency	41	5.0	69	12.0	103	21.8	24	3.0	263	40.8	47	293	7.2
Foreign currency	780	95.0	503	88.0	370	78.2	770	97.0	382	59.2	70	3,803	92.8
<b>Total</b>	<b>821</b>	<b>100.0</b>	<b>572</b>	<b>100.0</b>	<b>473</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>	<b>645</b>	<b>100.0</b>	<b>117</b>	<b>4,096</b>	<b>100.0</b>
<b>Ownership</b>													
Private sector	533	64.9	403	70.5	390	82.5	754	95.0	450	69.8	110	3,207	78.3
Public sector	288	35.1	169	29.5	83	17.5	40	5.0	195	30.2	7	889	21.7
(Of which companies under SAF)	(1)	(0.1)	(4)	(0.8)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
<b>Total</b>	<b>821</b>	<b>100.0</b>	<b>572</b>	<b>100.0</b>	<b>473</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>	<b>645</b>	<b>100.0</b>	<b>117</b>	<b>4,096</b>	<b>100.0</b>
<b>Nature of Project</b>													
New	144	17.5	336	58.8	104	22.1	370	46.6	161	25.0	50	1,827	44.6
Expansion	515	62.8	111	19.4	263	55.5	199	25.1	85	13.2	35	1,614	39.4
BMR /d	43	5.3	9	1.6	-	-	20	2.5	6	0.9	3	28	0.7
Working capital	76	9.3	94	16.5	99	21.0	178	22.4	348	53.9	28	583	14.2
Others	42	5.1	21	3.7	7	1.4	27	3.4	45	7.0	1	44	1.1
<b>Total</b>	<b>821</b>	<b>100.0</b>	<b>572</b>	<b>100.0</b>	<b>473</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>	<b>645</b>	<b>100.0</b>	<b>117</b>	<b>4,096</b>	<b>100.0</b>
<b>Size of Assistance (Won million)</b>													
Up to 50	1	0.0	1	0.1	-	-	1	0.1	1	0.2	7	1	0.0
50-100	1	0.1	1	0.1	-	-	1	0.1	1	0.2	5	2	0.1
100-300	4	0.5	3	0.5	3	0.8	5	0.6	4	0.6	8	7	0.2
300-1,000	14	1.8	8	1.4	15	3.2	21	2.6	15	2.3	16	55	1.3
1,000-2,000	27	3.3	17	3.1	51	10.7	74	9.3	29	4.5	16	84	2.1
Over 2,000	774	94.3	542	94.8	404	85.3	692	87.2	595	92.2	65	3,947	96.3
<b>Total</b>	<b>821</b>	<b>100.0</b>	<b>572</b>	<b>100.0</b>	<b>473</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>	<b>645</b>	<b>100.0</b>	<b>117</b>	<b>4,096</b>	<b>100.0</b>
<b>Duration</b>													
Up to 1 year	41	5.0	34	6.0	94	19.9	58	7.3	31	4.8	17	37	0.9
1-4 years	84	10.2	168	29.3	75	15.8	88	11.1	163	25.3	21	391	9.5
4-8 years	254	31.0	181	31.6	50	10.7	62	7.8	133	20.6	36	770	18.8
8-10 years	185	22.5	119	20.9	42	8.9	107	13.5	169	26.2	22	765	18.7
10-15 years	257	31.2	59	10.3	197	41.7	459	57.8	149	23.1	18	2,057	50.2
Over 15 years	-	-	11	1.9	14	3.0	20	2.5	-	-	3	76	1.9
<b>Total</b>	<b>821</b>	<b>100.0</b>	<b>572</b>	<b>100.0</b>	<b>473</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>	<b>645</b>	<b>100.0</b>	<b>117</b>	<b>4,096</b>	<b>100.0</b>
<b>Sectoral Distribution</b>													
Manufacturing Industries	712	86.7	479	83.7	337	71.3	281	35.4	511	79.2	83	2,713	66.2
Consumer goods	102	12.5	156	27.2	57	12.0	27	3.4	30	4.6	24	250	6.1
Intermediate goods	110	13.4	115	20.1	68	14.6	116	14.6	142	22.0	26	918	22.4
Capital goods	96	60.4	199	34.8	202	15.9	126	15.9	292	45.3	25	1,459	35.8
Other	3	0.4	9	1.6	9	1.5	12	1.5	47	7.3	8	86	2.1
Nonmanufacturing industries	109	13.3	93	16.3	136	64.6	513	64.6	134	20.8	34	1,383	33.8
<b>Total</b>	<b>821</b>	<b>100.0</b>	<b>572</b>	<b>100.0</b>	<b>473</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>	<b>645</b>	<b>100.0</b>	<b>117</b>	<b>4,096</b>	<b>100.0</b>
<b>Geographical Distribution</b>													
Seoul City	76	9.3	138	24.2	279	58.9	101	12.7	181	28.1	32	1,518	37.1
Busan City	63	7.7	19	3.3	20	4.2	85	10.7	60	9.3	16	161	3.9
Kyunggi Province	44	5.4	43	7.6	28	5.8	12	1.5	7	1.1	13	73	1.8
South Chungcheong Province	-	-	1	0.2	2	0.4	1	0.1	11	1.7	2	64	1.6
North Chungcheong Province	28	3.4	25	4.3	1	0.3	-	-	13	2.0	2	18	0.4
Kangwon Province	93	11.4	40	7.0	22	4.6	22	2.8	34	5.3	2	202	4.9
South Jeolla Province	56	6.7	99	17.4	25	5.4	114	14.4	25	3.9	7	425	10.4
North Jeolla Province	-	-	10	1.8	3	0.7	-	-	-	-	3	16	0.4
South Kyungsang Province	232	28.2	53	9.2	58	12.3	183	23.0	295	45.7	28	773	18.9
North Kyungsang Province	229	27.9	144	25.0	35	7.4	276	34.8	19	2.9	12	846	20.6
Che-ju Island	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>821</b>	<b>100.0</b>	<b>572</b>	<b>100.0</b>	<b>473</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>	<b>645</b>	<b>100.0</b>	<b>117</b>	<b>4,096</b>	<b>100.0</b>

/a Foreign exchange fluctuations and L/C guarantees are not reflected.

/b Includes foreign exchange fluctuations, L/C guarantees and guarantees transferred to the Readjustment Corporation.

/c Number of companies.

/d Balancing, modernization and replacement.

AEPID

February 1983

KOREA  
INDUSTRIAL FINANCE PROJECT  
KOREA DEVELOPMENT BANK

KDB's Outstanding Loan Portfolio By Source, 1978-81  
(Won billion)

December 31	1978		1979		1980		1981	
	Amount	%	Amount	%	Amount	%	Amount	%
<u>Government</u>								
<u>Funding</u>								
Special funds	596.4	41.3	880.0	61.2	1,127.7	36.3	1,425.2	37.3
Budgetary resources	225.6	15.6	274.3	12.8	378.5	12.2	490.5	12.8
Subtotal	<u>822.0</u>	<u>56.9</u>	<u>1,154.3</u>	<u>54.0</u>	<u>1,506.2</u>	<u>48.5</u>	<u>1,915.7</u>	<u>50.1</u>
<u>KDB-raised</u>								
<u>Resources</u>								
Domestic currency	248.1	17.2	338.9	15.8	429.1	13.8	490.0	12.8
Foreign commercial borrowings	231.8	16.1	469.6	22.0	933.7	30.1	1,169.9	30.6
Foreign official borrowings	141.6	9.8	175.2	8.2	236.3	7.6	249.7	6.5
Subtotal	<u>621.5</u>	<u>43.1</u>	<u>983.7</u>	<u>46.0</u>	<u>1,599.1</u>	<u>51.5</u>	<u>1,909.6</u>	<u>49.9</u>
Total	<u>1,443.5</u>	<u>100.0</u>	<u>2,138.0</u>	<u>100.0</u>	<u>3,105.3</u>	<u>100.0</u>	<u>3,825.3</u>	<u>100.0</u>

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KOREA  
INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Economic Impact of KDB Financed Projects, 1977-81  
Partial Economic Indicators of Projects /a  
(Won billion)

	1977	1978	1979	1980	1981
No. of projects /b	679	789	698	787	763
Total project costs /c	697	1,140	1,431	2,009	2,887
Amount of KDB financing /c	345	579	940	1,310	1,268
Share of KDB financing (%)	49.5	50.8	65.7	65.2	43.9
Incremental annual sales /d	1,543	2,165	2,532	3,519	4,874
Incremental annual value Added /d	189	387	461	723	873
Increase in fixed assets	n.a.	977	1,246	1,551	1,833
Additional employment ('000)	71	94	103	103	106
Additional annual payroll /d	33.4	45.0	50.1	48.7	98.5
Incremental annual exports /d	648	1,169	1,266	1,548	2,740
Net annual balance of payments effect (net foreign exchange earnings and savings) (\$ million) /d	5,387	6,584	9,894	10,271	9,221
<u>Memorandum Items</u>					
Sales per additional employee (won '000)	21,732	23,032	24,582	33,837	42,017
Value added per additional employee (won '000)	2,662	4,117	4,476	6,952	7,526
Fixed assets per additional employee (won '000)	n.a.	10,394	12,093	14,913	15,802
Annual payroll per additional employee (won '000)	471	479	486	468	929
Ratio of sales to fixed assets	n.a.	2.2	2.0	2.3	2.7
Ratio of value added to fixed assets	n.a.	0.4	0.37	0.47	0.48
Ratio of value added to sales	0.12	0.18	0.18	0.21	0.18
Ratio of exports to sales (%)	42	54	50	44	56
Payroll share of value added (%)	17	12	11	7	11

/a Based on projections made in project appraisal reports; equity investment and debenture financing are excluded.

/b Net of projects subsequently withdrawn.

/c Won equivalent at varying exchange rates.

/d Estimates at full capacity operations.

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## KOREA

## INDUSTRIAL FINANCE PROJECT

## The Korea Development Bank

Subprojects Approved Under Bank Loan No. 1574-KO  
(As of December 31, 1982)  
(US\$'000)

Subborrower	Industry	Type of project	Total project cost		KDB financing		Rate of return		Incremental annual exports	Incremental employment (number)	Cost per job
			Local	Foreign	Total	IBRD	Financial	Economic			
Mi Ryung Construction Co. Ltd.	Construction	Expansion	2,600	944	944	944	11.5	13.4	-	53	67
Mi Ryung Construction Co. Ltd.	Construction	Expansion	11,008	342	342	342	-	-	-	18	630
Yong Dong Development Co. Ltd.	Construction	Expansion	1,470	690	690	690	15.8	14.3	-	72	30
Pyeong Hwa Clutch Co. Ltd.	Machinery	Expansion	1,297	260	260	260	-	-	610	46	34
Kuk Je Pharmaceutical Ind. Co. Ltd.	Pharmaceutical	Expansion	946	357	357	357	-	-	-	20	65
Dong Yang Tinplate Ind. Co. Ltd.	Metal products	Expansion	1,933	766	766	766	17.6	36.1	-	-	-
Nam Sun Machinery Works	Machinery	Expansion	228	574	574	574	-	-	1,663	93	9
Sam Sung Electronics Co. Ltd.	Electronic	Expansion	20,010	4,525	4,525	4,525	14.1	46.9	121	322	76
Hyundai Rolling Stock Co. Ltd.	Carrier equipment	New	22,108	5,771	7,041	3,975	26.2	33.9	57,938	1,505	19
Yoo Shin Ind. Co. Ltd.	Metal products	New	791	1,284	1,284	1,284	32.5	45.5	-	42	49
K-Mek Inc.	Machinery	Expansion	1,385	624	624	624	27	34.3	3,432	32	63
Dong Yang Steel Ind. Co. Ltd.	Metal products	Expansion	11,624	13,297	6,744	5,859	30.1	31.1	4,906	43	580
Tae Sung Mechanical Ind. Co. Ltd.	Construction	Expansion	437	651	692	651	14.7	44.2	-	9	121
Kuk Je Pharmaceutical Ind. Co., Ltd.	Construction	Expansion	1,705	218	218	218	-	-	-	30	64
Dae Woong Pharmaceutical Co. Ltd.	Pharmaceutical	Expansion	960	535	535	535	-	-	-	60	25
Sam Hwa Electric Co. Ltd.	Electricity	Expansion	1,642	1,952	1,952	1,952	19.5	33.5	3,736	35	103
Han Jun Petro-Chemical Mfg. Co. Ltd.	Solvent and asphalt	New	2,078	643	643	643	-	-	-	3	907
Samkwang Glass Ind. Co. Ltd.	Glass bottle	New	4,108	994	94	994	21.5	37.6	5,706	75	67
Union Co. Ltd.	White cement	New	7,800	5,267	4,922	4,922	17.6	27.9	1,682	44	297
Samkyung Chemical Co. Ltd.	Phthalic anhydride	Expansion	3,922	4,562	4,562	4,562	37.3	12.4	-	47	181
Cheun Kwang Ceramic Co. Ltd.	Mosaic tile	New	1,569	977	977	977	21.4	28.8	2,111	303	8
Saehan Media Corp.	Cassette tape	Expansion	1,685	926	926	926	18.1	33.2	2,453	63	41
Korea Steel Chemical Co. Ltd.	Coal chem. products	New	6,995	5,002	5,002	5,002	16.7	18.4	5,328	100	120
Union Co. Ltd.	White cement	New	7,219	5,497	5,899	402	-	-	3,080	36	353
Korea Steel Chemical Co. Ltd.	Coal chem. products	Expansion	7,861	288	1,044	288	-	-	6,886	19	429
Saehan Media Corporation	Cassette tape	New	3,077	858	858	858	19.8	31.7	397	103	38
Kyung Nam Sumyu Ind. Co. Ltd.	Textile	Expansion	1,036	762	762	762	24.1	39.2	1,994	12	150
Shin Young Co. Ltd.	Textile	Expansion	2,860	1,718	1,718	1,718	16.4	19.7	3,795	230	20
Cheil Leather Co. Ltd.	Leather	Expansion	102	326	326	326	-	-	2,406	20	21
Seang Bang Wool Ltd.	Textile	Expansion	9,243	8,565	7,023	4,647	22.7	49.7	18,747	357	50
Bo Sung Special Fiber Co. Ltd.	Textile	Expansion	773	748	748	748	28.6	41.8	1,539	28	54
Dae Won Worsted Spinning Co. Ltd.	Textile	Expansion	96	519	519	519	-	-	2,565	100	6
Sino Ltd.	Textile	Expansion	532	950	950	950	23.6	31.04	800	18	82
Chung Won Trading Co. Ltd.	Textile	Expansion	659	337	337	337	-	-	970	38	26
Samjin Aluminium Co. Ltd.	Aluminium	Expansion	969	573	573	573	-	-	-	20	77
Holy Paper Mfg. Co. Ltd.	Paper	BMR	820	666	666	666	-	-	3,530	24	62
Shinmoorim Paper Mfg. Co. Ltd.	Paper	New	10,282	4,778	4,778	4,778	19.0	30.2	-	252	60
Sam Sung Special Paper Mfg. Co. Ltd.	Paper	Expansion	5,215	1,779	1,779	1,779	35.4	24.4	-	174	40
Doongman Paper Mfg. Co. Ltd.	Paper	Expansion	19,011	7,098	7,098	7,098	20.5	17.3	-	512	50
Pyeong Hwa Dang Printing Co. Ltd.	Printing	Expansion	507	779	779	779	14.0	23.3	-	10	129
Shinmoorim Paper Mfg. Co. Ltd.	Paper	Expansion	2,102	1,545	1,545	1,545	24.8	30.5	-	79	46
Tae Yang Dang Printing Co. Ltd.	Printing	Expansion	329	220	220	220	-	-	462	4	137
Hankook Drop Forging Co. Ltd.	Forging Products	Expansion	4,198	7,106	7,159	923	23.9	33.4	-	176	64
Bookook Steel & Wire Co. Ltd.	Metal products	Expansion	809	760	760	760	25.2	37.3	668	-	-
Yuseung Metal Ind. Co. Ltd.	Seamless pipe elbows	New	522	277	277	277	-	-	198	29	27
Taikwang Metallic Card Clothing Co. Ltd.	Metallic card clothing wire	New	304	640	640	640	-	-	-	54	17
Hanjin Container Lines Ltd.	Shipping	Expansion	26,191	10,803	25,951	7,472	29.2	30.4	36,051	218	170
Dongbu Travel Service Co. Ltd.	Transportation	Expansion	3,293	1,961	1,961	1,961	16.3	28.6	-	162	32
Han Bo General Construction Co. Ltd.	Construction	Expansion	1,684	377	377	377	-	-	-	132	16
Seang Yong Shipping Co. Ltd.	Shipping	Expansion	5,812	2,715	6,872	2,415	10.0	10.7	618	31	274
Han Jin Transportation Co. Ltd.	Transportation	Expansion	12,146	3,989	3,989	3,989	25.5	47.9	-	217	74
Chun Kyung Container Terminal Co. Ltd.	Transportation	Expansion	408	519	519	519	-	-	336	17	54
Korea Marine Transport Co. Ltd.	Shipping	Expansion	16,639	7,045	20,160	5,845	18.2	18.5	21,348	34	697
Han Jin Transportation Co. Ltd.	Transportation	Expansion	699	1,196	3,746	1,196	19.5	32.5	-	25	76
Pan Ocean Bulk Carriers Ltd.	Shipping	Expansion	19,379	4,877	15,486	2,277	18.5	20.4	2,986	139	174
Shin Han Enterprise Co. Ltd.	Transportation	Expansion	298	653	653	653	-	-	-	36	26
Korea Chamotte Co., Ltd.	Kadin chamotte	New	4,581	1,237	213	213	16.7	25.7	5,975	60	97
<b>Total</b>			<b>277,957</b>	<b>133,322</b>	<b>171,958</b>	<b>100,092</b>			<b>205,037</b>	<b>6,381</b>	<b>64.5</b>

KOREA  
INDUSTRIAL FINANCE PROJECT

## The Korea Development Bank

Subprojects Approved Under Bank Loan 1933-KO  
(as of December 31, 1982)  
(US\$'000)

Subborrower	Industry	Type of project	Total project cost		KDB financing	Rate of return (%)		Incremental annual exports	Incremental employment (number)	Cost per job
			Local	Foreign		Financial	Economic			
Dong Woo Equipment Co., Ltd.	Construction	Expansion	712	970	1,682	970	-	-	50	34
Mi Ryung Construction Co., Ltd.	Construction	Expansion	14,918	400	15,113	400	-	-	8	1,889
Ban Do Daiwa Sports Co., Ltd.	Fishing reel	Expansion	765	412	1,177	412	-	2,152	19	62
Jung Woo Development Co., Ltd.	Construction	Expansion	4,911	6,550	11,461	4,750	-	-	194	59
Hyundai Mipo Dockyard Co., Ltd.	Ship repairing	Expansion	10,217	1,500	3,562	1,500	32.8	86,918	145	70
Hyundai Mipo Dockyard Co., Ltd.	Ship repairing	Expansion	152,539	4,000	4,000	4,000	22.7	226,000	6,260	24
Bookook Steel & Wire Co., Ltd.	Metal products	Expansion	11,393	7,300	7,300	7,300	14.3	17,387	174	107
Hayndai Pipe Co., Ltd.	Steel pipe	Expansion	30,118	10,000	16,554	10,000	21.9	111,515	79	508
Korea Chamotte Co., Ltd.	Kaolin chamotte	New	4,581	980	2,821	980	16.7	5,975	60	93
Pacific Development Co., Ltd.	Glass bottles	Expansion	2,926	2,036	760	760	16.4	23.1	-	24
STC Chemicals Inc.	Cellophane and P.P. film	Expansion	4,154	4,540	6,013	4,540	29.5	5,948	31	280
Kyunggi Chemical Industrial Co., Ltd.	Chemical fertilizer	New	9,952	2,134	2,862	2,134	15.7	2,169	38	318
Korea Steel Chemical Co., Ltd.	Coal chemical products	New	18,384	5,995	8,276	5,500	22.2	10,593	86	283
Hyun Dai Cement Co., Ltd.	Cement	Expansion	4,540	1,760	4,744	1,760	26.6	32.2	-	10
Taihan Insoplast Co., Ltd.	Insulation products	New	2,884	1,633	1,798	1,583	-	-	-	34
Sam Yang Tire Co.	Rubber products	Expansion	11,123	3,260	3,260	3,260	17.2	21,838	149	97
STC Chemicals Inc.	Cellophane and P.P. film	Expansion	2,752	845	845	845	16.7	21.5	-	16
Cheung Kwang Ceramic Co., Ltd.	Ceramic tile	Expansion	1,395	726	726	726	-	2,694	65	32
Woon Poong Industrial Co., Ltd.	Rubber products	Expansion	3,439	3,052	3,052	3,052	17.4	4,061	26	250
Sam Yung Chemical Co., Ltd.	Plastic products	Expansion	3,858	3,000	3,000	3,000	25.5	354	20	343
Ko Dan Co., Ltd.	Paving block	New	902	733	1,016	733	-	-	-	25
Woo Mi Nylon Industrial Co., Ltd.	Textile	Expansion	175	131	131	131	-	1,504	6	51
Boo Kwang Trading Co., Ltd.	Textile	Expansion	1,481	1,950	1,950	1,950	26.1	7,773	71	48
Dong Il Textile Co., Ltd.	Textile	Expansion	291	1,250	1,250	1,250	29.1	356	20	77
Pum Yang Industrial Co., Ltd.	Textile	Expansion	1,386	1,250	1,250	1,250	24.5	5,304	63	42
Cheil Synthetic Textiles Co., Ltd.	Textile	BMR	130	700	700	700	-	175	-	-
Hyundai Wool Textile Co., Ltd.	Textile	Expansion	1,432	1,600	1,600	1,600	29.3	6,140	68	45
Dae Do Synthetic Textile Co., Ltd.	Textile	Expansion	323	195	195	195	-	3,904	61	8
Dae Woong Pharmaceutical Co., Ltd.	Pharmaceutical	Expansion	1,163	633	633	633	-	-	148	12
Korea Iron & Steel Works Ltd.	Metal products	Expansion	651	280	280	280	-	4,525	7	133
Dong Shin Pharmaceutical Co., Ltd.	Pharmaceutical	Expansion	965	117	117	117	-	-	46	24
Chung Dong Printing Co., Ltd.	Printing	Expansion	239	490	490	490	-	-	13	56
Dong-A Printing Co., Ltd.	Printing	Expansion	755	1,890	1,890	1,890	-	26.2	-	(10)
Daihan Enpalogy Industrial Co., Ltd.	Special paper manufacturing	Expansion	155	111	111	111	-	-	11	24
Youngjin Shipping Co., Ltd.	Shipping	Expansion	566	13,050	11,745	6,000	27.9	3,393	31	439
Heung-A Shipping Co., Ltd.	Shipping	Expansion	505	6,650	5,985	4,000	22.7	1,283	32	224
Daeyang Shipping Co., Ltd.	Shipping	Expansion	912	11,000	9,900	6,000	25.0	24.7	-	32
Hanjin Transportation Co., Ltd.	Transportation	Expansion	833	937	937	937	25.8	32.0	-	33
Han Yum Forwarding Co., Ltd.	Marine transportation	Expansion	111	275	275	275	-	-	-	3
Korea Marine Transport Co., Ltd.	Shipping	Expansion	23,644	3,500	3,500	3,500	20.5	19.9	-	38
Korea Line Co.	Shipping	Expansion	351	5,000	4,500	3,000	-	-	-	32
Sam Ho Development Co., Ltd.	Construction	Expansion	857	450	450	450	-	-	-	4
Young Hae Construction Co., Ltd.	Construction	Expansion	65	180	180	180	-	-	-	5
Cho Yang Shipping Co., Ltd.	Shipping	Expansion	20,853	3,000	19,067	3,000	17.1	19.8	7,080	33
Sam-A Aluminium Co., Ltd.	Aluminium	Expansion	113	110	110	110	-	-	-	6
Shin Han Enterprise Co., Ltd.	Land Transportation	Expansion	335	390	390	390	-	-	-	11
TAE Yang Dang Printing Co., Ltd.	Printing	Expansion	350	390	390	390	-	-	-	12
Taihan Telecommunication Industrial Co., Ltd.	Telecommunication product	New	1,014	1,100	1,100	1,100	18.5	16.0	8,100	33
Sam Yang Oil & Fat Co., Ltd.	Rice Bran Oil	Expansion	2,669	570	570	570	-	-	-	151
Sam Yang Textile Co.	Textiles	Expansion	1,679	1,272	1,419	880	12.7	20.1	1,517	27
Samwha Trading Co., Ltd.	Paper products	Expansion	1,174	390	390	50	-	-	-	16
Inchon Engineering & Shipbuilding Co., Ltd.	Shipbuilding & Ship repairing	Expansion	7,655	2,750	4,650	2,750	20.5	25.0	57,614	2,379
Yu Yu Ind. Co., Ltd.	Pharmaceutical	Expansion	338	110	110	110	-	-	-	3
Poong-Man Paper Mfg. Co., Ltd.	Paper products	Expansion	3,689	1,020	1,020	1,020	19.4	20.7	-	148
STC Inc.	B.O.P.P. film and C.P.P. film	Expansion	1,223	870	870	870	17.3	18.6	-	15
Il-Hwa Wool Textile Ind. Co., Ltd.	Wool textile	BMR	1,382	428	428	428	-	-	9,542	10
Total			365,392	114,936	284,105	101,006		174,453	11,017	43.6



KOREA

INDUSTRIAL FINANCE PROJECT

Korea Development Bank

Summarized Balance Sheets as of December 31, 1977-82 /a  
(Won million)

	1977	1978	1979	1980	1981	1982
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and bank deposits	59,207	142,201	152,882	181,824	119,727	119,064
Securities	49,682	5,766	101,856	5,241	282,535	112,122
Short-term loans /b	n.a.	n.a.	117,265	314,134	341,066	572,303
Current portion of loans /c	75,853	177,039	165,349	253,266	333,779	421,699
Accrued interest & other receivables	24,869	30,595	45,251	63,022	82,585	48,153
Other current assets /d	31,322	16,634	44,924	80,153	101,899	90,185
<b>Total Current Assets</b>	<b>240,933</b>	<b>372,235</b>	<b>627,527</b>	<b>897,640</b>	<b>1,261,591</b>	<b>1,443,526</b>
<b>Long-Term Loans</b>						
<b>Domestic currency loans</b>						
Working capital loans /c	107,176	115,089	120,494	246,976	390,485	315,346
Capital loans	795,395	1,124,245	1,576,821	2,051,511	2,531,851	3,118,808
<b>Total Domestic Currency Loans</b>	<b>902,571</b>	<b>1,239,334</b>	<b>1,697,315</b>	<b>2,298,487</b>	<b>2,922,336</b>	<b>3,434,154</b>
(Current portion thereof)	(67,303)	(129,448)	(129,991)	(154,373)	(254,653)	(328,936)
<b>Foreign currency loans /f</b>						
(Current portion thereof)	105,328	204,142	323,457	492,628	561,908	724,849
	(8,550)	(47,591)	(35,358)	(98,893)	(79,126)	(153,988)
<b>Total Loans</b>	<b>1,007,899</b>	<b>1,443,476</b>	<b>2,020,772</b>	<b>2,791,115</b>	<b>3,484,244</b>	<b>4,159,003</b>
(Less: Current portion)	(75,853)	(177,039)	(165,349)	(253,266)	(333,779)	(482,924)
<b>Net Long-Term Loans</b>	<b>932,046</b>	<b>1,266,437</b>	<b>1,855,423</b>	<b>2,537,849</b>	<b>3,150,465</b>	<b>3,676,079</b>
<b>Investments</b>						
Equity shares	217,362	273,516	300,391	473,199	516,828	484,775
Debentures	23,235	26,384	31,791	42,021	107,034	156,014
<b>Total Investments</b>	<b>240,597</b>	<b>299,900</b>	<b>332,182</b>	<b>515,220</b>	<b>623,862</b>	<b>640,789</b>
(Current portion thereof)	(18,890)	(844)	(1,926)	(1,021)	(32,068)	(53,854)
<b>Net Investments</b>	<b>221,707</b>	<b>299,056</b>	<b>330,256</b>	<b>514,199</b>	<b>591,793</b>	<b>586,935</b>
<b>Property and equipment</b>						
Receivables from loan, investment and property disposal /g	6,550	7,292	9,559	11,800	14,316	27,609
(Current portion thereof)	24,672	27,420	28,947	33,518	36,843	76,638
	(3,749)	(4,777)	(3,808)	(3,549)	(5,768)	(1,856)
Other assets /h	15,241	29,735	20,980	17,352	35,406	47,760
<b>Total Other Assets</b>	<b>42,714</b>	<b>59,670</b>	<b>55,678</b>	<b>59,121</b>	<b>80,797</b>	<b>150,151</b>
<b>Total Assets</b>	<b>1,437,400</b>	<b>1,997,398</b>	<b>2,868,884</b>	<b>4,008,809</b>	<b>5,084,646</b>	<b>5,856,691</b>

/a Audited by external auditor except for December 31, 1982.

/b Current portion in working capital loans including foreign currency working capital loans.

/c Current portion in capital loans.

/d Including current portion in investments.

/e Noncurrent portion in working capital loans except foreign currency working capital loans.

/f Including AID, KFW, ADB, IBRD subloans.

/g Including receivable from the Readjustment Corporation.

/h Shareholding administration fund (SAF) loans, etc.

	1977	1978	1979	1980	1981	1982
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Short-term deposits	77,033	105,050	111,116	146,377	110,601	94,035
Current portion of long-term debt	70,602	128,044	170,195	300,572	528,050	694,141
Credit control account	36,879	19,506	16,116	20,404	17,936	38,117
Other current liabilities /a	18,497	27,992	49,062	214,532	106,255	116,400
<b>Total Current Liabilities</b>	<b>203,011</b>	<b>280,592</b>	<b>346,489</b>	<b>681,885</b>	<b>762,842</b>	<b>942,693</b>
<b>Long-Term Liabilities</b>						
Special Finance Debentures	15,969	10,709	5,507	326	-	-
Deduct: Equivalent cash deposits	(15,969)	(10,709)	(5,507)	(326)	-	-
Net liability for SFD	-	-	-	-	-	-
<b>Time Deposits</b>						
Domestic currency	1,716	11	34	106	108	21
Foreign currency	968	-	-	-	-	-
<b>Total Time Deposits</b>	<b>2,684</b>	<b>11</b>	<b>34</b>	<b>106</b>	<b>108</b>	<b>21</b>
<b>Foreign Currency Borrowings</b>						
Official sources /b	100,416	146,048	178,261	239,992	254,395	275,480
Commercial sources /c	162,572	241,356	624,915	862,465	1,464,252	1,703,699
<b>Total Foreign Currency Borrowings</b>	<b>262,988</b>	<b>387,404</b>	<b>803,176</b>	<b>1,102,457</b>	<b>1,718,647</b>	<b>1,979,179</b>
(Less: Current portion)	(22,968)	(33,865)	(38,752)	(99,653)	(223,620)	(186,802)
<b>Net Foreign Currency Borrowings</b>	<b>240,020</b>	<b>353,539</b>	<b>764,424</b>	<b>1,002,804</b>	<b>1,495,027</b>	<b>1,792,377</b>
<b>Domestic Currency Borrowings</b>						
Government of Korea /d	202,185	262,505	311,936	430,988	577,019	732,046
Industrial Rationalization Fund	51,111	50,078	47,607	44,718	41,049	37,141
Tourism Development Fund	4,760	15,324	24,069	31,543	46,402	51,262
National Investment Fund	298,280	537,182	809,125	1,049,247	1,313,345	1,552,232
IFDs in domestic currency	79,514	95,452	143,189	246,607	351,258	509,158
<b>Total Domestic Currency Borrowings</b>	<b>635,850</b>	<b>960,541</b>	<b>1,335,926</b>	<b>1,803,103</b>	<b>2,329,073</b>	<b>2,881,839</b>
(Less: Current portion)	(47,634)	(94,179)	(131,443)	(200,919)	(304,430)	(507,339)
<b>Net Domestic Currency Borrowings</b>	<b>588,216</b>	<b>866,362</b>	<b>1,204,483</b>	<b>1,602,184</b>	<b>2,024,643</b>	<b>2,374,500</b>
<b>Provisions for Doubtful Accounts /e</b>	<b>13,500</b>	<b>17,000</b>	<b>24,702</b>	<b>42,858</b>	<b>57,887</b>	<b>11,272</b>
<b>Other Long-Term Liabilities /f</b>	<b>18,136</b>	<b>25,066</b>	<b>36,460</b>	<b>45,136</b>	<b>53,000</b>	<b>51,285</b>
<b>Total Long-Term Liabilities</b>	<b>862,556</b>	<b>1,261,978</b>	<b>2,030,103</b>	<b>2,693,088</b>	<b>3,630,665</b>	<b>4,299,455</b>
<b>Total Liabilities</b>	<b>1,065,567</b>	<b>1,542,570</b>	<b>2,376,592</b>	<b>3,374,973</b>	<b>4,393,507</b>	<b>5,172,148</b>
<b>Equity</b>						
Paid-in capital	279,942	331,757	331,757	505,300	523,879	523,879
Reserves and retained earnings	91,891	123,071	160,535	128,536	167,260	160,664
<b>Total Equity</b>	<b>371,833</b>	<b>454,828</b>	<b>492,292</b>	<b>633,836</b>	<b>691,139</b>	<b>684,543</b>
<b>Total Liabilities and Equities</b>	<b>1,437,400</b>	<b>1,997,398</b>	<b>2,868,884</b>	<b>4,008,809</b>	<b>5,084,646</b>	<b>5,856,691</b>
<b>Outstanding Guarantees</b>						
Domestic currency	71,314	92,739	141,420	200,870	152,474	292,459
Foreign currency	3,207,530	3,805,599	3,580,790	4,592,444	4,444,639	3,803,139
<b>Total Guarantees</b>	<b>3,278,844</b>	<b>3,898,338</b>	<b>3,722,210</b>	<b>4,793,314</b>	<b>4,597,113</b>	<b>4,095,598</b>

/a Accrued expenses and unearned income, short-term borrowings, etc.

/b Including Credits of AID, KFW and IBRD to the Government.

/c Syndicated loans and IFDs in foreign currency

/d Includes budgetary allocations for other special funds (Energy rationalization fund, shipping promotion fund, special industry supporting fund, electronic industry promotion fund) of W 4.7 billion in 1980, W 25.1 billion in 1981 and W 35.6 million in 1982.

/e Provisions for accrued income receivables, loans and investments, receivables from purchasers and the Readjustment Corporation.

/f Provisions for retiring allowance, SAF, etc.

AEPID

February 1983

KOREA  
INDUSTRIAL FINANCE PROJECT

The Korea Development Bank  
Summarized Income Statements, 1977-82 /a  
(Won million)

	1977	1978	1979	1980	1981	1982
<u>INCOME</u>						
Interest Income						
Interest on loans	89,599	138,684	233,394	432,296	552,771	546,340
Interest on bonds & debentures	1,807	2,409	2,858	4,930	13,165	21,087
Interest on deposits	2,102	2,462	3,186	11,453	6,473	14,625
Interest on securities & others	-	-	-	-	32,169	40,895
<u>Total Interest Income</u>	<u>93,508</u>	<u>143,555</u>	<u>239,438</u>	<u>448,679</u>	<u>604,578</u>	<u>622,947</u>
Other Income						
Dividend income	5,572	5,748	12,399	8,238	10,053	5,995
Guarantee commissions	12,999	15,972	17,371	21,161	21,774	19,936
Capital gains on sale of investment	5,640	7,991	-	1,109	6,168	1,365
Other income	8,654	6,126	9,388	20,269	5,672	7,451
<u>Total Other Income</u>	<u>32,865</u>	<u>35,837</u>	<u>39,158</u>	<u>50,777</u>	<u>43,667</u>	<u>34,747</u>
<u>Total Gross Income</u>	<u>126,373</u>	<u>179,392</u>	<u>278,596</u>	<u>499,456</u>	<u>648,245</u>	<u>657,694</u>
<u>EXPENSES</u>						
Financial Expenses						
Interest on						
Borrowings from Government	42,400	67,973	118,269	219,059	259,702	240,551
Foreign loans	13,530	20,175	44,246	115,015	192,584	239,924
Debentures	5,058	22,244	32,393	65,927	87,842	98,888
Deposits	5,270	4,989	6,211	7,529	9,969	12,081
Commission and others	513	2,252	4,929	5,017	14,852	9,846
<u>Total Financial Expenses</u>	<u>76,771</u>	<u>117,633</u>	<u>206,048</u>	<u>412,547</u>	<u>564,949</u>	<u>601,290</u>
Administrative and Other Expenses						
Personnel expenses	6,198	8,863	15,212	12,354	14,989	17,709
Provision for doubtful accounts	622	3,604	7,678	18,040	15,040	3,985
Provision for foreign exchange loss (net)	6,032	11,829	3,295	4,004	363	1,010
Other expenses	4,204	3,986	5,329	6,739	9,163	13,994
<u>Total Admin. &amp; Other Expense</u>	<u>17,056</u>	<u>28,282</u>	<u>31,514</u>	<u>41,137</u>	<u>39,555</u>	<u>36,698</u>
<u>Total Expenses</u>	<u>93,827</u>	<u>145,915</u>	<u>237,562</u>	<u>453,684</u>	<u>604,504</u>	<u>637,988</u>
Net Income before Defense Tax	32,546	33,477	41,034	45,771	43,741	19,706
Defense Tax	2,201	2,297	3,570	4,227	3,524	2,530
<u>NET INCOME /b</u>	<u>30,345</u>	<u>31,180</u>	<u>37,464</u>	<u>41,554</u>	<u>40,217</u>	<u>17,176</u>

/a Audited by external auditor except for 1982.

/b According to the KDB Act, KDB's entire net income is transferred to "Legal Reserves." The Government of Korea, KDB's sole shareholder, does not receive any dividend.

## KOREA

## INDUSTRIAL FINANCE PROJECT

## The Korea Development Bank

Cash Flow Statements, 1977-1982  
(Won million)

	1977	1978	1979	1980	1981	1982
<b>Sources of Funds</b>						
Net income	30,345	31,180	37,464	41,544	40,217	17,176
Noncash charges	796	3,656	18,249	26,601	15,728	8,173
Increase in paid-in capital	5,000	51,815	-	100,000	17,086	-
Capital transfer from Government	-	-	-	-	-	-
Drawdown on foreign currency borrowings:						
Official sources	39,472	52,722	53,273	83,993	38,847	51,162
Commercial sources (excl. IFDs in foreign currency)	21,117	65,316	400,634	331,178	661,312	414,439
Subtotal	60,589	118,038	453,907	415,171	700,159	490,950
Borrowing from:						
GOK	41,209	64,330	83,262	127,105	156,451	166,000
NIF	99,759	256,055	310,754	297,140	358,752	379,406
IRF	-	-	-	-	-	4,664
TDF	4,443	10,788	9,830	9,663	18,158	13,018
Subtotal	145,411	331,173	403,846	433,908	533,361	574,308
Issuance of IFDs						
In domestic currency	46,878	55,417	62,279	163,757	195,210	215,255
In foreign currency	35,149	29,544	17,763	73,446	20,845	29,541
Subtotal	82,027	84,961	80,042	237,203	216,055	244,796
Increase in deposits	56,194	7,971	1,715	35,262	(35,776)	(16,653)
Sale of investments /a	9,026	27,716	3,576	4,823	26,147	77,430
Collection of loans						
Domestic currency	67,524	129,466	175,061	277,604	479,883	601,818
Foreign currency	9,624	14,260	70,027	50,522	67,914	111,388
Subtotal	77,148	143,726	245,088	328,126	547,797	713,206
Increase in other liabilities /b	7,048	16,425	22,404	322,679	142,094	95,275
Total Sources	473,584	816,661	1,266,291	1,946,307	2,171,868	2,179,312
<b>Uses of Funds</b>						
Increase in property & equipment	388	898	2,480	2,679	3,002	13,293
Loan disbursements:						
Domestic currency	304,802	466,228	750,308	1,075,645	1,084,171	1,330,141
Foreign currency	34,807	95,778	189,342	219,693	183,687	227,835
Subtotal	339,609	562,006	939,650	1,295,338	1,267,858	1,557,977
Adjustment of foreign exchange gains (losses)	5,545	17,296	(9,404)	4,004	363	1,774
New investment	71,858	87,019	35,858	187,862	134,788	94,357
Repayments against domestic currency borrowings:						
GOK	7,614	4,009	33,832	12,785	12,679	22,192
NIF	8,676	17,153	38,811	57,018	94,654	140,520
IRF	-	1,033	2,471	2,889	3,668	3,909
TDF	34	224	1,085	2,189	3,299	8,158
Subtotal	16,324	22,419	76,199	74,881	114,300	174,779
Repayments against foreign currency borrowings:						
Official sources	5,419	7,090	21,060	22,262	22,188	30,890
Commercial sources	12,423	16,195	18,008	31,702	50,160	73,482
Subtotal	17,842	23,285	39,068	53,964	72,348	104,372
Redemption of IFDs						
In domestic currency	24,704	39,360	14,661	60,338	90,560	146,616
In foreign currency	-	-	16,708	3,392	30,209	21,066
Subtotal	24,704	39,360	31,369	63,730	120,769	167,682
Increase in securities	(23,417)	(43,916)	(96,090)	(96,615)	277,294	(170,413)
Increase in other assets	10,351	19,804	44,300	331,522	243,243	156,154
Increase in cash	10,380	82,994	10,681	28,942	(62,097)	79,337
Total Uses	473,584	816,661	1,266,291	1,946,307	2,171,868	2,179,312

/a Excluding capital gains.

/b Including interest and fees payable, other current assets, other long-term assets, and receivables from property disposal.

KOREA  
INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Indicators of Financial and Operational Performance, 1977-1982  
(Won million)

	1977	1978	1979	1980	1981	1982
<b>Total Assets</b>	1,437,400	1,997,398	2,868,884	4,008,809	5,084,646	5,856,691
Of which:						
Loan portfolio /a	1,007,277	1,443,476	2,138,037	3,105,249	3,825,310	4,670,081
Investment portfolio	240,597	299,900	332,182	515,220	623,862	640,789
<b>Long-term Liabilities &amp; guarantees</b>	4,126,521	5,160,316	5,752,313	7,486,402	8,227,778	8,395,053
Of which:						
In foreign currency	274,000	387,285	803,176	1,102,457	1,718,647	1,979,179
Borrowings from Government	202,185	262,505	311,936	430,988	577,019	696,417
Debentures in domestic currency	79,514	95,571	143,189	246,607	351,258	509,158
Special loans and funds	354,151	602,584	880,801	1,125,508	1,400,796	1,676,264
Deposits	18,072	13	34	106	108	21
<b>Outstanding guarantees</b>	3,278,844	3,898,338	3,722,210	4,793,314	4,597,113	4,095,598
Of which: Covered under GRA /a	2,538,312	2,968,636	2,707,197	3,406,330	3,491,207	2,942,572
<b>Equity</b>	371,833	454,828	492,292	633,836	691,135	684,543
<b>Financial Performance</b>						
Percentage of Average Total Assets						
1. Gross income	9.9	10.5	11.5	14.5	14.5	12.0
2. Financial expenses	6.0	6.9	8.5	12.0	12.4	11.0
3. Gross spread (1-2)	3.9	3.6	3.0	2.5	1.8	1.0
4. Administrative expenses	0.8	0.8	0.8	0.6	0.5	0.7
5. Provisions for doubtful loans & foreign exchange losses	0.5	0.9	0.5	0.6	0.3	0.1
6. Income tax /b	-	-	-	-	-	-
7. Profit before provision	2.9	2.7	2.0	1.9	1.2	0.4
8. Net profit	2.4	1.8	1.5	1.2	0.9	0.3
<b>Net Profit as % of Average Net Worth /b</b>	8.6	7.5	7.9	7.4	6.1	2.5
<b>Other Ratios</b> /c						
1. Provisions & reserves as % of total portfolio	7.9	7.9	7.3	4.6	5.9	3.2
2. Book value as % of par value	133	137	148	125	132	131
3. Debt service cover ratio (times)	1.3	1.4	1.4	1.3	1.0	1.3
4. Interest cover ratio (times)	1.2	1.2	1.2	1.1	1.1	1.1
5. Cost of total long-term resources as % of average total long-term resources	6.0	7.5	9.2	13.1	13.6	11.7
6. Income from loan portfolio as % of average loan portfolio /d	10.7	11.3	13.5	16.5	16.0	12.9
7. Interest on long-term debt as % of average long-term debt	9.0	10.3	11.5	16.2	15.8	13.3
8. Spread (6-7)	1.2	1.0	1.9	0.3	0.1	0.4
9. Long-term debt/equity ratio /e	2.9	4.8	6.2	6.4	6.9	8.0
10. Total debt/equity ratio /e	3.6	5.4	7.5	7.5	8.0	9.2
11. Total debt/equity ratio /f	10.0	11.9	12.9	12.9	13.0	13.5
12. Debt equity/ratio according to KDB Act, Article 25 /g	7.9	9.1	7.3	7.3	6.6	6.1
13. Current ratio	2.0	1.8	1.3	1.3	1.7	1.5

/a Guarantee Release Agreement under which the Government covers the risk of KDB.

/b Net income after National Defense Tax and from 1982, after the corporate income tax (5%).

/c Including unappropriated profits.

/d Based on a daily average.

/e Excluding guarantees covered under GRA.

/f Including guarantees covered under GRA.

/g Debt principally comprises not-government-guaranteed IFDs and guarantee outstanding.

## KOREA

## INDUSTRIAL FINANCE PROJECT

## Korea Development Bank

## Funding Cost and Lending Rate as of December 31, 1980-82 (%)

	Funding cost (nominal rate)		
	1980	1981	1982
<u>Source</u>			
<u>Domestic Currency</u>			
Government fund	17.0	17.0	9.5
NIF	18.0-19.0	16.0-17.0	8.5-9.5
IRF	5.0	5.0	5.0
TDF	16.0	16.0	9.5
SISF	0	0	0
SPF	-	14.5	9.5
ERF	-	13.5	8.5
EIPF	-	-	5.0
<u>Domestic IFD</u>			
Discounted:			
1 year	-	17.9	10.2
2 years	19.7	16.7	10.5
3 years	17.8	15.3	10.7
Coupon:			
2 years	-	-	11.7
3 years	-	-	12.1
5 years	24.0	23.9	-
<u>Foreign Currency</u>			
<u>From Official Source:</u>			
IBRD	7.5	9.25	9.25
ADB	7.65	7.65	7.65
KFW	7.0	7.0	-
<u>From Commercial Source</u>			
Syndicated bank loan	LIBOR+0.9	LIBOR+1.09	LIBOR+0.71
Foreign currency IFD	8.17	8.81	8.17

	Lending rate (nominal rate)			Lending rate (Effective rate)		
	1980	1981	1982	1980	1981	1982
<u>Lending of Resources Mobilized</u>						
<u>Domestic Currency</u>						
Government fund	18.5	17.5	10.0	20.85	19.60	10.66
NIF	18.5-19.5	16.5-17.5	10.0	20.85-22.13	18.35-19.60	10.66
IRF	18.5-19.5	16.5-17.5	10.0	20.85-22.13	18.35-19.60	10.66
TDF	16.5	16.5	10.0	18.35	18.35	10.66
SISF	1.0	1.0	1.0	1.01	1.01	1.01
SPF	-	15.0	10.0	-	16.52	10.66
ERF	-	15.0	10.0	-	16.52	10.66
EIPF	-	-	6.0	-	-	6.23
Equipment & work- ing capital loan	18.5-20.5	16.5-18.5	10.0	20.85-23.42	18.35-20.85	10.66
Subscription of corporate bonds	-	22.0	12.5	-	25.39	13.95
<u>Foreign Currency</u>						
<u>From Official Source:</u>						
IBRD	9.5	11.25	11.25	10.16	11.57	11.57
ADB	9.65	9.65	9.65	9.88	9.88	9.88
KFW	9.0	9.0	-	9.20	9.20	-
Loans from re- volving fund	11.2-12.7	16.5-17.0	15.0	12.03-13.78	18.35-18.97	16.52
<u>From Commercial Source</u>						
Foreign cur- rency loan	LIBOR +1.9-2.4	LIBOR +1.7-1.9	LIBOR +1.25	-	-	-
Coverted loan	11.2-12.7	16.5-17.0	15.0	12.03-13.78	18.35-18.97	16.52

## KOREA

## INDUSTRIAL FINANCE PROJECT

## The Korea Development Bank

Portfolio Status (Arrears, Rescheduling, Write-Offs), 1977-82  
(Won million)

As of December 31	1977	1978	1979	1980	1981	1982
<u>Loan Portfolio in Arrears</u>						
(Total loans outstanding)	(1,007,277)	(1,443,476)	(2,138,037)	(3,105,249)	(3,825,310)	(4,670,081)
<u>Arrears</u>						
Principal in arrears	1,215	2,270	3,488	5,826	5,195	4,900
Interest in arrears	730	1,766	9,046	11,706	13,943	6,552
Total Arrears	1,945	4,036	12,534	17,532	19,138	11,452
(As % of total loans outstanding)	(0.2)	(0.3)	(0.6)	(0.6)	(0.5)	(0.2)
<u>Principal Affected by Arrears</u>	15,038	36,090	123,713	165,086	164,314	57,348
(As % of total principal outstanding)	(1.5)	(2.5)	(5.8)	(5.3)	(4.3)	(1.2)
<u>Loan Reschedulings</u>						
Principal amount rescheduled	42,036	45,190	58,852	143,553	219,579	251,878
(Of which due at the time of rescheduling)	(12,074)	(14,548)	(16,071)	(46,546)	(88,003)	(144,651)
Rescheduling as % of outstanding portfolio	4.2	3.1	2.8	4.6	5.7	5.4
<u>Loans Transferred to RAC</u>	1,025	3,506	1,856	6,634	838	16,769
Principal affected (%)	0.1	0.2	0.1	0.2		0.4
<u>Amounts Written-Off</u>	-	169	-	-	11	-
<u>Loan Portfolio Affected (%)</u>						
By arrears, reschedulings, transfer to RAC and write-offs	5.8	5.8	8.7	10.1	11.0	7.0
<u>Collection Performance</u>						
Collection rate (%)	98.8	98.6	97.4	97.4	97.7	99.3
<u>Guarantee Portfolio in Arrears</u>						
(Total guarantees outstanding)	(3,278,844)	(3,898,388)	(3,722,210)	(4,793,314)	(4,597,113)	(4,095,598)
<u>Arrears</u>						
Principal in arrears	2,071	2,285	6,945	20,768	28,720	7,983
Interest in arrears	24	52	268	444	991	10
Total Arrears	2,095	2,337	7,213	21,212	29,711	7,993
(As % of guarantees Outstanding)	(0.1)	(0.1)	(0.2)	(0.4)	(0.6)	(0.2)
<u>Outstanding Guarantees Affected by Arrears</u>	12,952	5,784	52,080	93,705	90,497	30,187
(As % of guarantees portfolio)	(0.4)	(0.2)	(1.4)	(1.9)	(2.0)	(0.7)

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INDUSTRIAL FINANCE PROJECT  
The Korea Development Bank  
Analysis of Loans in Arrears, 1978-1982  
(Won million)

As of December 31	1978				1979				1980				1981				1982			
	Portfolio affected		Amount in arrears		Portfolio affected		Amount in arrears		Portfolio affected		Amount in arrears		Portfolio affected		Amount in arrears		Portfolio affected		Amount in arrears	
	No./a	Amount	Prin- cipal	In- terest	No./a	Amount	Prin- cipal	In- terest	No./a	Amount	Prin- cipal	In- terest	No./a	Amount	Prin- cipal	In- terest	No./a	Amount	Prin- cipal	In- terest
<b>Length of Arrears</b>																				
Less than 3 months	36	26,257	1,128	998	46	53,726	519	2,962	36	132,616	3,945	5,906	24	81,492	2,734	10,141	39	41,584	3,073	2,482
3-6 months	1	2,509	520	364	9	49,136	1,066	3,090	17	26,997	1,005	2,466	17	40,001	1,387	2,601	8	5,018	368	248
6-12 months	4	6,435	479	335	5	14,543	295	2,328	2	15,473	876	1,901	14	36,492	1,074	1,201	8	4,018	755	720
1-2 years	3	889	143	69	6	6,308	1,608	666	-	-	-	1,433	4	6,329	-	-	2	3,469	35	1,229
More than 2 years																	1	3,259	669	1,873
<b>Total</b>	<b>44</b>	<b>36,090</b>	<b>2,270</b>	<b>1,766</b>	<b>60</b>	<b>123,713</b>	<b>3,488</b>	<b>9,046</b>	<b>55</b>	<b>165,086</b>	<b>5,826</b>	<b>11,706</b>	<b>59</b>	<b>164,314</b>	<b>5,195</b>	<b>13,943</b>	<b>58</b>	<b>57,348</b>	<b>4,900</b>	<b>6,552</b>
<b>Sector</b>																				
Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private	44	36,090	2,270	1,766	60	123,713	3,488	9,046	55	165,086	5,826	11,706	59	164,314	5,195	13,943	58	57,348	4,900	6,552
<b>Total</b>	<b>44</b>	<b>36,090</b>	<b>2,270</b>	<b>1,766</b>	<b>60</b>	<b>123,713</b>	<b>3,488</b>	<b>9,046</b>	<b>55</b>	<b>165,086</b>	<b>5,826</b>	<b>11,706</b>	<b>59</b>	<b>164,314</b>	<b>5,195</b>	<b>13,943</b>	<b>58</b>	<b>57,348</b>	<b>4,900</b>	<b>6,552</b>
<b>Type of Industry</b>																				
<b>Manufacturing Industries</b>																				
Textiles, wearing apparel and leather	8	6,497	1,204	519	9	22,353	158	2,284	6	21,670	233	3,782	14	61,889	410	3,160	5	720	197	44
Chemicals, rubber and plastic	2	1,967	38	5	10	4,523	605	244	5	1,839	225	124	3	5,687	143	51	2	415	147	46
Petroleum, coal & nonmetallic mineral products	4	3,668	101	45	1	294	112	89	1	419	6	15	5	8,121	266	1,167	-	-	-	-
Basic metals	7	4,631	174	312	7	14,296	999	692	4	68,984	1,926	2,129	5	22,198	238	1,061	-	-	-	-
Fabricated metal products, machinery	3	3,623	152	106	7	51,213	1,335	3,050	7	8,933	994	1,602	12	17,800	1,586	2,590	9	7,386	346	629
Electrical equipment	3	2,101	58	25	2	456	-	24	3	5,109	399	261	3	10,901	467	991	1	3,614	206	125
Transport equipment	6	4,065	18	112	2	2,473	-	104	3	14,541	183	583	2	4,197	231	94	1	320	-	8
Others	-	-	-	-	2	311	24	9	2	1,049	10	215	1	3,280	246	409	6	11,141	1,852	1,364
<b>Subtotal Manufacturing</b>	<b>33</b>	<b>26,552</b>	<b>1,745</b>	<b>1,124</b>	<b>40</b>	<b>95,919</b>	<b>3,233</b>	<b>6,496</b>	<b>31</b>	<b>122,544</b>	<b>3,976</b>	<b>8,711</b>	<b>46</b>	<b>134,080</b>	<b>3,587</b>	<b>9,463</b>	<b>24</b>	<b>23,596</b>	<b>2,748</b>	<b>2,216</b>
<b>Nonmanufacturing Industries</b>																				
Agriculture, forestry & fishery	-	-	-	-	1	9,702	-	1,924	-	4,736	129	446	1	1,006	324	829	2	7,247	1,397	3,328
Electricity, gas & waterworks	-	-	-	-	1	241	-	7	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-
Transportation	15	7,352	361	432	13	16,004	201	548	15	35,298	1,568	2,405	8	26,310	1,033	3,510	29	25,734	730	990
Hotel & tourism	6	2,186	164	210	5	1,847	54	71	8	2,407	199	134	4	2,918	233	141	1	146	25	-
Others	-	-	-	-	-	-	-	-	1	101	14	10	-	-	-	-	2	625	-	18
<b>Subtotal Nonmanufacturing</b>	<b>21</b>	<b>9,538</b>	<b>525</b>	<b>642</b>	<b>20</b>	<b>27,794</b>	<b>255</b>	<b>2,550</b>	<b>20</b>	<b>27,794</b>	<b>255</b>	<b>2,995</b>	<b>13</b>	<b>30,234</b>	<b>1,608</b>	<b>4,480</b>	<b>34</b>	<b>33,752</b>	<b>2,152</b>	<b>4,336</b>
<b>Grand Total</b>	<b>44</b>	<b>36,090</b>	<b>2,270</b>	<b>1,766</b>	<b>60</b>	<b>123,713</b>	<b>3,488</b>	<b>9,046</b>	<b>55</b>	<b>165,086</b>	<b>5,826</b>	<b>11,706</b>	<b>59</b>	<b>164,314</b>	<b>5,195</b>	<b>13,943</b>	<b>58</b>	<b>57,348</b>	<b>4,900</b>	<b>6,552</b>

/a Number of companies.

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ANNEX 2  
Table 49



KOREA

INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Resource Position as of December 31, 1982

	Won million
<u>A. DOMESTIC CURRENCY RESOURCES</u>	
1. <u>Long-Term Resources</u>	
(a) <u>Raised in Domestic Currency</u>	
Equity: Paid-in capital	523,879
Reserves and retained earnings	160,664
Subtotal	<u>684,543</u>
Borrowings: Government	696,417
Industrial Rationalization Fund	37,141
National Investment Fund	1,552,232
Tourism Development Fund	51,262
Special Industry Supporting Fund	29,342
Shipping Promotion Fund	1,119
Energy Rationalization Fund	4,968
Electronic Industry Promotion Fund	200
Subtotal	<u>2,372,681</u>
Debentures	509,158/a
Revolving funds	22,039
Time deposits (more than 1 year)	21
Subtotal	<u>531,218</u>
(b) <u>Raised in Foreign Currency /a</u>	
Debentures	132,295
Syndicated bank loans	1,074,435
Subtotal	<u>1,206,730</u>
<u>Total Long-Term Resources in Domestic Currency</u>	<u>4,795,172</u>
Less: Term loans outstanding in domestic currency	3,434,154
Investment outstanding	640,789
Receivables from property disposed	76,638
Fixed assets	27,609
Other assets	47,760
Subtotal	<u>4,226,950</u>

	Won million
Resources available for disbursement	568,222
Less undisbursed commitments	--
<u>Resources Available for Commitment</u>	<u>568,222</u>
2. <u>Short-Term Resources</u>	
Short-term deposits	82,203
Others	154,517
Subtotal	<u>236,720</u>
Less operating loan (less than 12 months)	572,303
<u>Short-Term Resources Available for Disbursement and Commitments</u>	<u>(335,583)</u>
B. <u>FOREIGN CURRENCY RESOURCES</u>	
1. <u>Borrowings from Official Sources</u>	
IBRD	190,240
AID	3,107
ADB	71,514
KFW	10,619
Less revolving funds	22,039
Subtotal	<u>253,441</u>
	<u>(338,463)/b</u>
2. <u>Borrowing from Commercial Sources</u>	
Debentures	54,483
Syndicated bank loans	442,486
Subtotal	<u>496,969</u>
	<u>(663,687)/b</u>
3. <u>Time Deposits</u>	<u>11,832</u>
<u>Total Foreign Currency Resources</u>	<u>762,242</u>
Less: Foreign currency loans outstanding	724,849
Requirements against foreign deposits received	2,921
Foreign currency resources available for disbursement	34,472
Less: Undisbursed commitments	13,881
Foreign currency resources available for commitment	20,591
Less: Uncommitted approvals	--
<u>Foreign Currency Resources Available for Approval</u>	<u>20,591</u>

/a Net of issue cost.

/b Amounts in parenthesis US\$ thousand.

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KOREA  
INDUSTRIAL FINANCE PROJECT  
KOREA DEVELOPMENT BANK

Net Increase in Total Resources Outstanding 1976-82 By Source of Funding  
(Won billion)

	1976	%	1977	%	1978	%	1979	%	1980	%	1981	%	1982	%	1976-82	%
<u>Domestic Currency</u>																
Government funds	109.8	44.0	129.1	43.1	308.8	55.4	327.6	39.2	363.8	38.5	421.3	36.2	394.9	50.0	2,055.3	42.5
Share capital & reserves	82.8	33.1	35.3	11.8	83.0	14.9	37.5	4.5	141.5	15.0	57.3	4.9	(6.6)/a	(0.8)	430.8	8.9
Domestic deposits & debentures	(12.8)/a	(4.6)/a	66.7	22.3	23.5	4.2	51.0	6.1	139.5	14.8	61.1	5.3	165.8	21.0	494.8	10.2
<u>Foreign Currency</u>																
Foreign commercial borrowings	53.9	21.6	43.9	14.7	78.7	14.1	383.6	46.0	237.6	25.2	601.8	51.7	239.4	30.3	1,638.9	33.9
Foreign official borrowings	30.3	12.1	34.0	11.4	45.6	8.2	32.3	3.9	61.7	6.5	14.4	1.2	21.1	2.7	239.4	4.9
Foreign deposits	(14.2)/a	(5.6)/a	(9.8)/a	(3.3)/a	17.8	3.2	2.8	0.3	(0.7)/a	(-)/a	7.8	0.7	(24.6)/a	(3.2)/a	(20.9)	(0.4)
<u>Increase in Total Resources Outstanding</u>	249.8	100.0	299.2	100.0	557.4	100.0	834.8	100.0	943.4	100.0	1,163.7	100.0	790.0	100.0	4,838.3	100.0

/a Parwntieses indicate a reduction in the outstanding values.

KOREA  
INDUSTRIAL FINANCE PROJECT

Korea Development Bank  
IFD Operations (1975-September 1982)  
(W million)

	1975	1976	1977	1978	1979	1980	1981	Sept . 1982
Outstanding at the beginning of the year	77,622	73,340	68,896	94,192	124,832	187,089	326,752	437,544
<u>New Issues</u>								
Face value <u>/a</u>	17,458	40,000	50,000	70,000	100,000	200,000	200,000	240,800
Net proceeds <u>/a</u>	12,341	27,763	36,873	43,181	61,739	109,959	124,915	158,528
Redemption	21,740	44,444	24,704	39,360	37,743	60,337	89,208	131,667
Outstanding at the end of the year	73,340	68,896	94,192	124,832	187,089	326,752	437,544	546,677

Weighted average cost of outstanding domestic IFDs:

As of December 31, 1981: 21.831%

As of September 30, 1982: 18.707%

/a The differential between face value and net proceeds is booked as deferred assets to be amortized until maturity of each type of IFD.

KOREA

INDUSTRIAL FINANCE PROJECT

THE KOREA DEVELOPMENT BANK

Foreign Currency IFD Operation

	1974	1975	1976	1977	1978	1979	1980	1981	1982
					(US\$ '000)				
Outstanding at the beginning of the year	-	18,850	18,850	93,397	163,280	204,613	213,828	255,871	243,215
New Issue									
Face value	18,850	-	74,547	69,883	41,333	43,541	47,411	30,000	41,293
Net proceeds	18,850	-	74,424	69,758	41,209	43,432	46,937	30,000	41,272
Redemption	-	-	-	-	-	34,326	5,368	42,656	27,450
Outstanding at the end of year	18,850	18,850	93,397	163,280	204,613	213,828	255,871	243,215	257,058

## KOREA

## INDUSTRIAL FINANCE PROJECT

## Korea Development Bank

Long-Term Foreign Currency Borrowings as of December 31, 1982  
(Each currency in thousand)

## A. Official Sources

	Contract amount	Appro- vals /a	Commit- ment /a	Disburse- ments	Repay- ments /b	Outstand- ing /c	Interest rate(%)		Maximum term /d		Date of Signing
							Bor- rowing	Re- lending	For KDB	For borrower	
<b>IBRD (US\$)</b>											
1st Loan	60,000	60,000	60,000	60,000	25,259	34,741	8.5	10.5	18 (3)	18 (3)	03/31/75
2nd Loan	82,500	82,458	82,458	82,458	27,234	55,224	8.7	10.7	17 (3)	35 (5)	12/23/76
KECO	11,713	11,713	11,713	11,713	0	11,713	5.83	7.5	25 (7)	17 (3)	11/20/76
3rd Loan	110,000	110,000	110,000	109,787	10,970	88,946	7.5	9.5	17 (3)	15 (3)	06/21/78
4th Loan	100,000	98,000	98,000	80,993	0	75,479	9.25	11.25	15 (3)	13 (3)	01/14/81
Subtotal	364,213	362,171	362,171	344,951	78,348	266,103					
<b>ADB (US\$)</b>											
1st Loan	10,000	10,000	10,000	10,000	8,905	1,095	7.5	10.0	15 (3)	15 (3)	11/23/70
2nd Loan	20,000	20,000	20,000	20,000	17,022	2,978	7.5	9.5	15 (3)	15 (3)	12/15/72
3rd Loan	30,000	30,000	30,000	30,000	23,246	6,754	7.5-8.75	9.5-10.75	15 (3)	15 (3)	03/20/74
RII Loan	17,416	17,416	17,416	17,416	4,547	12,869	8.75	10.5	15 (4)	15 (4)	05/30/75
4th Loan	40,000	40,000	40,000	40,000	9,107	30,893	8.75	10.75	15 (3)	15 (3)	12/12/75
5th Loan	50,000	49,995	49,995	48,677	5,341	43,336	7.65	9.65	15 (3)	15 (3)	04/13/78
Subtotal	167,416	167,411	167,411	166,093	68,168	97,925					
<b>AID (US\$)</b>											
1st Loan	5,000	4,988	4,988	4,998	4,988	0	5.0	8.0	10 (2.5)	10 (2.5)	04/12/60
2nd Loan	11,374	11,374	11,374	11,374	10,128	1,246	5.0	8.0	15 (3)	15 (3)	11/19/66
3rd Loan	11,000	11,000	11,000	11,000	8,017	2,983	6.0	10.0	15 (3)	15 (3)	06/26/68
Subtotal	27,374	27,372	27,372	27,372	23,235	4,139					
<b>KFW (DM)</b>											
1st Loan	20,000	20,000	20,000	20,000	16,335	3,665	5.0	8.0	20 (5)	10 (2)	01/24/66
2nd Loan	10,000	9,998	9,998	9,998	9,998	0	8.0	10.0	10 (2)	10 (2)	10/14/70
3rd Loan	10,000	10,000	10,000	10,000	0	10,000	7.0	9.0	30(10)	15 (3)	11/12/73
4th Loan	20,000	20,000	20,000	20,000	0	20,000	7.0	9.0	30(10)	15 (3)	08/04/76
Subtotal	60,000	59,998	59,998	59,998	26,333	33,665					

## B. Commercial Sources

	Contract amount	Disbursements	Repayments/b	Outstanding/c	Borrowing rate (%)	Maximum term for KDB /d	Date of Signing
<b>Bank Loans</b>							
1st Loan (US\$)	25,000	25,000	25,000	0	6 mos Libor + 1.75	5 (3)	06/09/70
2nd Loan (US\$)	80,000	80,000	64,000	16,000	6 mos Libor + 1	10 (3)	01/24/74
3rd Loan (US\$)	80,000	80,000	80,000	0	6 mos Libor + 1.875	5 (2)	06/25/76
4th Loan (¥)	5,000,000	5,000,000	3,850,000	1,150,000	9.9	7 (3)	07/21/76
5th Loan (US\$)	250,000	250,000	66,667	183,333	6 mos Libor + 0.875	10 (3)	05/31/78
6th Loan (¥)	28,000,000	28,000,000	9,800,000	18,200,000	7.8	10	05/31/79
7th Loan (US\$)	600,000	600,000	0	600,000	First 5 years: 6(3) mos Libor + 0.625 Remaining 5 years: 6(3) mos Libor + 0.75	10 (3)	07/05/79
KEB Loan (US\$)	200,000	200,000	200,000	0	6 mos Libor + 1-1/16	7.5	07/21/80
8th Loan (US\$)	600,000	600,000	0	600,000	6 mos Libor + 7/8	8 (3)	12/05/80
9th Loan (US\$)	500,000	300,000	0	300,000	First 4 years: 6 mos Libor + 1/2, Remaining 4 years: 6 mos Libor + 5/18	8 (4)	12/07/81
10th Loan (¥)	10,000,000	10,000,000	0	10,000,000	LTPR /e (Japan)+0.25	8 (4)	01/28/82
11th Loan (¥)	10,000,000	10,000,000	0	10,000,000	LTPR /e (Japan)+0.3	10 (5)	08/12/82
12th Loan (US\$)	300,000	0	0	0	3 or 6 mos Libor + 1/2 (US\$200,000) Prime + 0.2 (US\$100,000)	8 (4)	12/15/82
13th Loan (¥)	10,000,000	0	0	0	LTPR /e (Japan)+0.1 (¥ 5,000,000) LTPR /e (Japan)+0.2 (¥ 5,000,000)	10 (5)	12/21/82
<b>Eurobonds</b>							
1st issue (DH)	75,000	75,000	15,000	60,000	8.5	15 (5)	10/10/74
2nd issue (DH)	60,000	60,000	60,000	0	9.5	5	04/20/76
3rd issue (US\$)	10,000	10,000	10,000	0	9.25	3	07/15/76
4th issue (KD)	7,000	7,000	7,000	0	8.75	3	10/16/76
5th issue (US\$)	25,000	25,000	25,000	0	9.5	5	12/08/76
6th issue (US\$)	25,000	25,000	25,000	0	9.5	5	02/15/77
7th issue (DM)	100,000	100,000	0	100,000	7.25	7	11/25/77
8th issue (¥)	10,000,000	10,000,000	0	10,000,000	6.7	10 (5)	01/20/78
9th issue (KD)	12,000	12,000	960	11,040	7.875	10	03/10/79
10th issue (¥)	10,000,000	10,000,000	0	10,000,000	9.0	10 (5)	10/15/80
11th issue (US\$)	30,000	30,000	3,000	27,000	Libor + 0.25 (min. 7.5)	8	05/22/81
12th issue (¥)	10,000,000	10,000,000	0	10,000,000	8.5	7 (3)	03/12/82

/a Net of cancellations.

/b To lending institutions.

/c With lending institutions.

/d Grace period in parenthesis.

/e Long-term prime rate.

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Projected Approvals, Commitments and Disbursements, 1983-86  
(Won million)

Years ending December 31	1983	1984	1985	1986
<u>Approvals</u>				
Domestic Currency				
Capital loan	1,065,030	1,301,081	1,491,969	1,728,372
Working capital loan	331,390	392,392	439,053	498,337
Subtotal	<u>1,396,420</u>	<u>1,693,473</u>	<u>1,931,022</u>	<u>2,226,709</u>
Foreign Currency	339,219	412,466	472,980	547,924
Total Approvals	<u>1,735,639</u>	<u>2,105,939</u>	<u>2,404,002</u>	<u>2,774,633</u>
Equity Investments	-	-	-	-
Subscription of Private Bonds	100,000	120,000	144,000	173,000
<u>Commitments</u>				
Domestic Currency				
Capital loan	1,065,030	1,301,081	1,491,969	1,728,372
Working capital loan	331,390	392,392	439,053	498,337
Subtotal	<u>1,396,420</u>	<u>1,693,473</u>	<u>1,931,022</u>	<u>2,226,709</u>
Foreign Currency Loans	332,435	404,217	463,520	536,966
Total Commitments	<u>1,728,855</u>	<u>2,097,690</u>	<u>2,394,542</u>	<u>2,763,675</u>
<u>Disbursements</u>				
Domestic Currency				
Capital loan	1,065,030	1,301,081	1,491,969	1,728,372
Working capital loan	331,390	392,392	439,053	498,337
Subtotal	<u>1,396,420</u>	<u>1,693,473</u>	<u>1,931,022</u>	<u>2,226,709</u>
Foreign Currency Loans	315,813	384,006	440,344	510,118
Total Disbursements	<u>1,712,233</u>	<u>2,077,479</u>	<u>2,371,366</u>	<u>2,736,827</u>
<u>Repayments</u>				
Domestic currency loans	840,014	880,449	1,056,754	1,231,632
Foreign currency loans	130,582	186,592	221,784	256,798
Total Repayments	<u>970,596</u>	<u>1,067,041</u>	<u>1,278,538</u>	<u>1,488,430</u>
<u>Outstanding Loan Portfolio</u>				
Domestic currency loans	4,501,638	5,314,662	6,188,930	7,184,007
Foreign currency loans	910,080	1,107,494	1,326,054	1,579,374
Total Loans Outstanding	<u>5,411,718</u>	<u>6,422,156</u>	<u>7,514,984</u>	<u>8,763,381</u>

Basic Assumptions:

1. Foreign currency loans are expected to account for 18.5% of total loans and working capital loans for about 23% of domestic currency loans.
2. Commitments and disbursements: 100% of each year's domestic currency and 98% of foreign currency loan approvals are expected to be committed during the same year 100% of each year's domestic currency and 95% of foreign currency loan commitments will be disbursed.

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The Korea Development Bank

Borrowing Program to Meet Commitments 1983-86  
(Won million)

	1982 (Actual)	1983	1984	1985	1986
<u>Domestic Currency</u>					
<u>Borrowings</u>					
Borrowings from Government	177,738	238,367	274,122	315,240	362,526
NIF	379,406	432,110	540,138	675,173	843,969
IFDs	306,500	400,000	500,000	600,000	700,000
Subtotal	<u>863,644</u>	<u>1,070,477</u>	<u>1,314,260</u>	<u>1,590,413</u>	<u>1,906,495</u>
<u>Foreign Currency</u>					
<u>Borrowings (US\$) /a /b</u>					
<u>Commercial Sources</u>					
IFDs	41	150	150	150	200
Bank loans	420	500	500	500	500
Subtotal	<u>461</u>	<u>650</u>	<u>650</u>	<u>650</u>	<u>700</u>
<u>Official Sources</u>					
ADB	-	-	150	50	50
IBRD	-	130	-	150	-
Subtotal	<u>-</u>	<u>130</u>	<u>150</u>	<u>200</u>	<u>50</u>
Total (in US\$ million)	461	780	800	850	750
(in Won million)	<u>(346,073)</u>	<u>(587,730)</u>	<u>(602,800)</u>	<u>(640,475)</u>	<u>(565,125)</u>
<u>Total Borrowings</u> (in Won million)	<u>1,209,717</u>	<u>1,658,207</u>	<u>1,917,060</u>	<u>2,230,888</u>	<u>2,471,620</u>

/a On a contract basis.

/b Exchange rate applied: Won 750.7 per US dollar for 1982 and W 753.5 from 1983.

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## INDUSTRIAL FINANCE PROJECT

## Korea Development Bank

Projected Balance Sheets 1983-86  
(Won million)

Years ending December 31	1983	1984	1985	1986
<b>ASSETS</b>				
<u>Current Assets</u>				
Cash and bank deposits	189,110	179,655	170,672	162,138
Securities	233,044	265,812	233,122	150,008
Short-term loans	395,794	389,129	465,953	548,609
Current portion of long-term loans	682,018	733,113	840,552	918,089
Accrued interest & guarantee fees receivable	48,683	51,604	54,700	57,982
Other current assets	215,663	222,534	240,470	241,908
<u>Total Current Assets</u>	<u>1,764,312</u>	<u>1,841,847</u>	<u>2,005,469</u>	<u>2,078,734</u>
<u>Long-Term Loans</u>				
<u>Domestic currency loans</u>				
Operating loans	646,736	623,477	735,721	864,408
(Current portion thereof)	(346,650)	(334,184)	(394,346)	(463,323)
Capital loans	3,854,902	4,691,185	5,616,880	6,689,891
(Current portion thereof)	(544,570)	(566,274)	(655,361)	(720,897)
<u>Total Domestic Currency Loans</u>	<u>4,501,638</u>	<u>5,314,662</u>	<u>6,352,601</u>	<u>7,554,298</u>
(Less: Current portion)	(891,220)	(900,458)	(1,049,707)	(1,184,220)
<u>Foreign currency loans</u>				
Operating loans	122,861	137,362	179,017	213,215
(Current portion thereof)	(49,144)	(54,945)	(71,607)	(85,286)
Capital loans	787,219	970,132	1,147,037	1,366,159
(Current portion thereof)	(137,448)	(166,839)	(185,191)	(197,192)
<u>Total Foreign Currency Loans</u>	<u>910,080</u>	<u>1,107,494</u>	<u>1,326,054</u>	<u>1,579,374</u>
(Less: Current portion)	(186,592)	(221,784)	(256,798)	(282,478)
<u>Total Loans</u>	<u>5,411,718</u>	<u>6,422,156</u>	<u>7,678,655</u>	<u>9,133,673</u>
(Less: Current portion)	(1,077,812)	(1,122,242)	(1,306,505)	(1,466,698)
<u>Net Long-Term Loans</u>	<u>4,333,906</u>	<u>5,299,914</u>	<u>6,372,150</u>	<u>7,666,975</u>
<u>Investments</u>				
Equity shares	481,327	467,298	453,269	439,240
Debentures	192,516	216,258	252,129	299,064
<u>Total Investments</u>	<u>673,843</u>	<u>683,556</u>	<u>705,398</u>	<u>738,304</u>
(Less: Current portion)	(110,287)	(122,158)	(140,094)	(149,532)
<u>Net Investments</u>	<u>563,556</u>	<u>561,398</u>	<u>565,304</u>	<u>588,772</u>
<u>Other Assets</u>				
Property and equipment	33,734	42,066	52,456	65,412
Receivables from property disposal	63,838	70,222	77,244	84,968
	(20,191)	(21,067)	(23,173)	(25,490)
Other assets	44,114	48,532	58,385	58,724
<u>Total Other Assets</u>	<u>141,686</u>	<u>160,820</u>	<u>188,085</u>	<u>209,104</u>
(Less: Current portion)	(20,191)	(21,067)	(23,173)	(25,490)
<u>Net Other Assets</u>	<u>121,495</u>	<u>139,753</u>	<u>164,912</u>	<u>183,614</u>
<u>Total Assets</u>	<u>6,783,269</u>	<u>7,842,912</u>	<u>9,107,835</u>	<u>10,518,095</u>

Years ending December 31	1983	1984	1985	1986
<b>LIABILITIES AND EQUITY</b>				
<u>Current Liabilities</u>				
Short-term deposits	103,439	113,782	125,161	137,677
Current portion of long-term debt	830,672	939,874	1,184,579	1,356,865
Credit control account	38,549	45,488	53,676	63,337
Other current liabilities	128,040	140,844	154,928	170,421
<u>Total Current Liabilities</u>	<u>1,100,700</u>	<u>1,239,988</u>	<u>1,518,344</u>	<u>1,728,301</u>
<u>Long-Term Liabilities</u>				
<u>Time Deposits</u>				
Domestic currency	67	77	89	102
Foreign currency	-	-	-	-
<u>Total Time Deposits</u>	<u>67</u>	<u>77</u>	<u>89</u>	<u>102</u>
<u>Foreign Currency Borrowings</u>				
<u>Commercial sources</u>				
Bank loans	1,742,028	2,014,617	2,249,750	2,411,272
Bonds	281,952	391,047	500,141	646,908
<u>Subtotal</u>	<u>2,023,980</u>	<u>2,405,664</u>	<u>2,749,891</u>	<u>3,058,180</u>
Official sources	269,629	276,487	335,281	431,842
(Less: Current portion)	(214,558)	(252,524)	(329,059)	(331,780)
<u>Net Foreign Currency Borrowings</u>	<u>2,079,051</u>	<u>2,429,627</u>	<u>2,756,113</u>	<u>3,158,242</u>
<u>Domestic Currency Borrowings</u>				
Government of Korea	894,260	1,124,140	1,387,118	1,674,395
Industrial Rationalization Fund	33,212	29,282	25,351	21,418
Tourism Development Fund	55,910	59,343	63,751	70,434
National Investment Fund	1,800,139	2,113,694	2,526,055	3,054,267
IFDs in domestic currency	548,787	583,012	663,927	724,735
Other Special funds	37,562	39,428	42,821	47,985
(Less: Current portion)	(616,114)	(687,350)	(855,520)	(1,025,085)
<u>Net Domestic Currency Borrowings</u>	<u>2,753,756</u>	<u>3,261,549</u>	<u>3,853,503</u>	<u>4,568,149</u>
Provisions for doubtful loans investments	70,717	82,239	93,462	111,970
Other Long-term Liabilities	56,413	62,132	68,260	75,085
<u>Total Long-Term Liabilities</u>	<u>4,960,004</u>	<u>5,835,624</u>	<u>6,771,427</u>	<u>7,913,549</u>
<u>Total Liabilities</u>	<u>6,060,704</u>	<u>7,075,612</u>	<u>8,289,771</u>	<u>9,641,850</u>
<u>Equity</u>				
Paid-in capital	538,879	553,879	568,879	583,879
Reserves and retained earnings	183,686	213,421	249,185	292,365
<u>Total Equity</u>	<u>722,565</u>	<u>767,300</u>	<u>818,064</u>	<u>876,245</u>
<u>Outstanding Guarantees</u>				
Domestic currency	597,536	783,236	996,536	1,233,435
Foreign currency	3,424,972	4,137,063	4,541,323	5,173,293
<u>Total Guarantees</u>	<u>4,022,508</u>	<u>4,920,299</u>	<u>5,537,859</u>	<u>6,406,729</u>
Deduct: Customers' liabilities for guarantees	(4,022,508)	(4,920,299)	(5,537,859)	(6,406,729)
Net liabilities for guarantees	-	-	-	-
<u>Total Liabilities and Equity</u>	<u>6,783,269</u>	<u>7,842,912</u>	<u>9,107,835</u>	<u>10,518,095</u>

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INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Projected Income Statements, 1983-86  
(Won million)

	1983	1984	1985	1986
<u>INCOME</u>				
Interest Income				
Interest on loans	526,691	633,064	753,956	900,139
Interest on bonds & debentures	22,829	26,775	30,679	36,103
Interest on deposits	8,992	6,194	7,124	8,192
Interest on securities & others	40,030	41,151	42,137	43,142
Total Interest Income	598,542	707,184	833,896	987,576
Other Income				
Dividend income	11,931	11,716	11,369	11,022
Guarantee commissions	20,250	22,312	26,145	29,861
Capital gains on sale of investment	1,290	4,770	4,700	4,750
Other income	8,196	9,016	9,917	10,909
Total Other Income	41,667	47,814	52,131	56,542
Total Gross Income	640,209	754,998	886,027	1,044,118
<u>EXPENSES</u>				
Financial Expenses				
Interest on:				
Borrowings from Government	238,041	279,306	332,210	402,561
Foreign loans	190,355	216,048	244,899	271,719
Debentures	118,386	148,867	181,186	214,677
Deposits	5,021	5,946	6,837	7,863
Commissions and others	11,884	14,394	17,313	20,897
Total Financial Expenses	563,687	664,561	782,445	917,717
Administrative and Other Expenses				
Personnel expenses	19,480	21,428	23,571	25,928
Provision for loan losses	11,007	11,522	11,403	18,328
Provision for foreign exchange losses	4,266	5,192	6,216	7,404
Other expenses /a	14,725	17,364	20,378	24,015
Total Admin. & Other Expense	49,478	55,506	61,568	75,675
Total Expenses	613,165	720,067	844,013	993,392
Net Income before Tax	27,044	34,931	42,014	50,726
Taxes	4,022	5,196	6,250	7,545
NET INCOME	23,022	29,735	35,764	43,181

/a Including Education Tax.

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INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Projected Cash Flow Statements, 1983-86  
(Won million)

Years ending December 31	1983	1984	1985	1986
<b>Sources of Funds</b>				
Net income	23,022	29,735	35,764	43,181
Noncash charges	15,273	16,714	17,619	25,732
Increase in paid-in capital	15,000	15,000	15,000	15,000
Foreign currency borrowing from:				
Official sources	27,201	37,675	90,420	131,109
Commercial sources	371,450	452,100	452,100	452,100
Subtotal	398,651	489,775	542,520	583,209
Borrowing from:				
Government of Korea	227,600	261,740	301,001	346,151
National Investment Fund	432,110	540,138	675,173	843,696
Tourism Development Fund	13,000	14,000	15,000	16,000
Other special funds	10,767	12,382	14,240	16,376
Subtotal	683,477	828,260	1,005,414	1,222,223
Increase in deposits	14,151	16,231	18,666	21,465
Issuance of IFDs:				
In domestic currency	302,916	380,882	457,069	533,236
In foreign currency	98,952	113,025	113,025	150,700
Subtotal	401,868	493,907	570,094	683,936
Sales of investments	66,946	110,287	122,158	140,094
Loan collections	970,596	1,067,041	1,278,538	1,488,430
Sale of property and equipment	250	300	300	300
Sale of marketable securities	100,000	100,000	100,000	100,000
Increase in other liabilities	128,225	133,978	123,389	125,530
Decrease in other assets	39,640	33,588	33,647	32,661
<b>Total Sources</b>	<b>2,857,099</b>	<b>3,334,816</b>	<b>3,863,109</b>	<b>4,481,761</b>
<b>Uses of Funds</b>				
Increase in property & equipment	7,609	9,476	11,743	14,569
Loan disbursements:				
In domestic currency	1,396,420	1,693,473	1,931,022	2,226,709
In foreign currency	315,813	384,006	440,344	510,118
Subtotal	1,712,233	2,077,479	2,371,366	2,736,827
New investments	100,000	120,000	144,000	173,000
Repayments against:				
Domestic currency borrowings	222,069	269,457	311,209	383,092
Foreign currency borrowings	179,095	210,628	248,593	325,126
Official sources	(32,752)	(31,117)	(31,626)	(34,548)
Commercial sources	(146,343)	(179,511)	(216,967)	(290,578)
Subtotal	401,164	480,085	559,802	708,218
Redemption of IFDs				
In domestic currency	263,287	346,657	376,145	472,428
In foreign currency	3,778	3,930	3,931	3,933
Subtotal	267,065	350,587	380,076	476,361
Increase in marketable securities	220,922	132,768	67,310	16,886
Increase in other liabilities	32,800	33,090	63,600	67,511
Increase in other assets	125,260	140,786	274,195	296,923
<b>Total Uses</b>	<b>2,867,053</b>	<b>3,344,271</b>	<b>3,872,092</b>	<b>4,490,295</b>
Cash increase (decrease) during the year	(9,954)	(9,455)	(8,983)	(8,534)
Cash balance at beginning of the year	199,064	189,110	179,655	170,672
Cash balance at end of the year	189,110	179,655	170,672	162,138

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The Korea Development Bank

Indicators of Financial and Operational Performance, 1983-86  
(Won million)

	1983	1984	1985	1986
<b>Total Assets</b>	<b>6,783,269</b>	<b>7,842,912</b>	<b>9,107,835</b>	<b>10,518,095</b>
Of which: Loan portfolio	5,411,718	6,422,156	7,678,655	9,133,673
Investment portfolio	673,843	683,556	705,398	738,304
<b>Long-term liabilities &amp; guarantees</b>	<b>8,964,512</b>	<b>10,755,923</b>	<b>12,309,286</b>	<b>14,320,278</b>
Of which: In foreign currency	2,293,609	2,682,151	3,085,172	3,490,022
Borrowings from Government	894,260	1,124,140	1,387,118	1,674,396
Debentures in domestic currency	37,562	39,428	42,821	47,985
Special loans and funds	2,438,048	2,785,331	3,279,084	3,870,854
Deposits	67	77	89	102
<b>Outstanding guarantees</b>	<b>4,004,508</b>	<b>4,920,299</b>	<b>5,537,859</b>	<b>6,406,729</b>
Of which: Covered under GRA /a	2,628,324	3,174,782	3,485,011	3,969,985
<b>Equity</b>	<b>722,565</b>	<b>767,300</b>	<b>818,064</b>	<b>876,245</b>
<b>Financial Performance</b>				
Percentage of Average Total Assets				
1. Gross income	10.13	10.32	10.45	10.64
2. Financial expenses	8.92	9.09	9.23	9.35
3. Gross spread (1-2)	1.21	1.23	1.22	1.29
4. Administrative expenses	0.78	0.76	0.73	0.77
5. Provisions for doubtful loans & foreign exchange losses	0.24	0.23	0.21	0.26
6. Income tax /b	0.02	0.02	0.02	0.03
7. Profit before provision	0.61	0.64	0.63	0.70
8. Net profit /c	0.36	0.41	0.42	0.44
<b>Net Profit as % of Average Net Worth</b>	<b>3.27</b>	<b>3.99</b>	<b>4.51</b>	<b>5.10</b>
<b>Other Ratios</b>				
1. Provisions & reserves as % of total portfolio /d	4.18	4.16	4.09	4.10
2. Book value as % of par value	1.34	1.39	1.44	1.50
3. Debt service cover ratio (times)	1.27	1.19	1.23	1.18
4. Interest cover ratio (times)	1.08	1.09	1.09	1.10
5. Cost of total long-term resources as % of average total long-term resources	9.59	9.92	10.11	10.21
6. Income from loan portfolio as % of average loan portfolio /e	10.54	10.78	10.78	10.79
7. Interest on long-term debt as % of average long-term debt	10.39	10.48	10.51	10.53
8. Spread (6-7)	0.15	0.30	0.27	0.26
9. Long-term debt/equity ratio /f	8.77	9.88	10.79	11.81
10. Total debt/equity ratio /f	10.29	11.50	12.64	13.78
11. Total debt/equity ratio /g	13.93	15.63	16.90	18.32
12. Debt/equity ratio according to KDB Act, Article 25 /h	5.93	6.92	7.38	8.05
13. Current ratio	1.60	1.49	1.32	1.20

/a Guarantee Release Agreement under which the Government covers the risk of KDB.

/b KDB is subject to Corporate income tax (5%) from 1982.

/c Net income after tax.

/d Including unappropriated profits.

/e Based on a yearly basis, including interest on bonds and debentures.

/f Excluding guarantees covered under GRA.

/g Including guarantees covered under GRA.

/h Debt principally comprises not-government-guaranteed IFDs and guarantee outstanding.

KOREA

INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Policy Statement

Economic Role of KDB

1. The KDB shall assist in the economic development of Korea in conformity with its purpose as stated in the Korea Development Bank Act (KDB Act) enacted December 30, 1953, as amended, its By-Laws enacted February 16, 1954, as amended, and other other regulations governing its operations.

Operations

2. The KDB will carry out its operations in accordance with sound management and banking principles and practices. It shall endeavor to specialize in extending capital funds to such industries as are designated by the Government's economic plans or decrees as priority industries as well as other major basic industries which form the substructure of the economy. KDB may also make equity investments, provide working capital loans and render managerial and technical assistance to its borrowers when the need arises. KDB will also extend guarantees on behalf of client enterprises. KDB, however, will not compete with other financial institutions in lending and administering industrial loans to assist major industries.

Project Selection

3. It will finance enterprises which are soundly managed and which appear, on careful economic, financial and engineering investigation to be viable. Following sound banking practices, the projects will be analyzed taking the following factors into consideration before making a commitment of financial assistance: (a) national economic benefits; (b) technical feasibility; (c) financial soundness and profitability; (d) marketability; and (e) quality of management.

Criteria for Selection of Borrowers

4. In its operations, preference will be given to the following major industries:

- (a) Generation, transmission and supply of electricity;

- (b) Coal-mining;
- (c) Ship-building;
- (d) Iron and steel manufacturing;
- (e) Electronics;
- (f) Export industries, designated by the Government to produce export commodities;
- (g) Import-substitution industries and industries producing raw materials necessary for export and import-substitution;
- (h) Indigenous industries and labor intensive industries; and
- (i) Such other industries as may be designated by the Government's economic plans or decrees as priority industries.

Qualifications for Eligible Borrowers

5. Eligible borrowers for KDB financing must meet the following qualifications:

- (a) Borrowers must be financially sound;
- (b) Borrowers must possess management and technical capacity for implementing the projects being financed;
- (c) Borrowers should not have defaulted on any of their outstanding obligations to KDB.

Maximum Investment and Assistance

- 6. (a) KDB shall not subscribe to and/or underwrite stocks (including investment certificates) if the paid-up amount of the stocks so held by KDB will exceed KDB's own paid-up capital;
- (b) KDB shall not normally make equity investments in any single enterprise in excess of either:
  - (i) fifteen percent (15%) of the total unimpaired paid-up capital, surplus, and free reserves of KDB; or
  - (ii) fifty percent (50%) of the paid in capital of the enterprise.

- (c) KDB shall not normally extend financial assistance (loan, investments and guarantees) to any single enterprise which exceeds either of the following ceilings:
  - (i) twenty-five percent (25%) of KDB's total unimpaired paid-up capital, surplus and free reserves;
  - (ii) sixty-five percent (65%) of the total assets of the enterprise.

#### Foreign Exchange Risk

7. As a general policy, KDB shall cover itself adequately against foreign exchange risks in the conduct of its operations. However, in using "revolving funds" generated in the case of some foreign borrowings, KDB may assume the exchange risk temporarily.

#### Security Arrangements

- 8. (a) In accordance with normal business practices, KDB will obtain adequate security for its loans and guarantees. In extending a loan to an enterprise, KDB shall require such enterprise to provide security the value of which shall be not less than 120% of the amount of the loan. In the case of guarantees covered by a Government counter-guarantee the value of security shall be not less than the amount guaranteed, and in all other cases of guarantees, shall be not less than 120% of the principal amount covered under such guarantees.
- (b) KDB may waive any of the foregoing requirements in cases where the credit or the guarantee is extended in favor of those enterprises enumerated in para. 2, Article 10 of the Operating Manuals of KDB as of the date of this Policy Statement, provided however, that in such cases KDB will endeavor to secure a guarantee or counter-guarantee from the Government or from a suitable bank or banks to cover the credit or guarantee granted.

#### Technical Assistance

9. KDB will endeavor to provide its subborrowers with the necessary technical services including assistance for upgrading production efficiency and solving complicated technical difficulties. It will observe the operations of its subborrowers and will, whenever necessary, promptly make available to them constructive and remedial advice on the operation of the project. When considered necessary, KDB will also dispatch its own staff to the project companies.



Management and Organization

10. To build and strengthen its own management and staff as well as to assist clients in the formulation and execution of their projects, KDB will maintain an effective organization and an adequate staff, including financial and economic analysis, engineering, accountancy, marketing and legal services.

Share-Holding Fund

11. KDB shall administer the Share-holding Administration Fund (the Fund) pursuant to the provisions of the KDB Share-holding Act (Act No. 2128, enacted August 4, 1969) as a separate and distinct account in KDB's official books, the Fund will be treated as segregated from the other transactions and resources of KDB in accordance with the provisions of said Act.

Financial Policies

12. KDB shall conduct its operations according to the provisions of the KDB Act. It shall endeavor to match the maturity of its liabilities with those of its assets. It will continually review the charges it levies for the financial assistance it provides to ensure that it receives an adequate "spread" to cover all its expenses including provisions for doubtful loans and investments, and to enable it to build reserves as required legally and as considered necessary by the management.

KOREA

INDUSTRIAL FINANCE PROJECT

The Korea Development Bank

Outline of Development Strategy for 1983-85

1. To achieve the goal of realizing an industrialized society, the Government will continue an export-oriented development strategy and an emphasis will be given to heavy and chemical industries on a selective basis through 1980s. As an instrument of the Government's development policy, KDB will in the three-year period 1983-85 further its development activities particularly in the specific areas outlined below.

2. Project Promotion and Resources Allocation

- (a) KDB will give priority financing to less energy-consuming export-oriented industrial sectors such as machinery and electronics;
- (b) KDB will increase its emphasis on financing private sector projects, in particular technology development projects;
- (c) KDB will expand its consultancy role to enterprises in the areas of project formulation, project design, selection of technology, engineering and project analysis;
- (d) KDB will continue to expand its contribution to the financial and industrial sectors through further development of its subsidiary companies - like KILC, SMBC, KASI, KDBI and network of foreign offices;
- (e) KDB will endeavor to internationalize its banking operation by:
  - (i) establishment of new international banking bases abroad;
  - (ii) arrangement for inducement of foreign capital by private enterprises;
  - (iii) project financing for overseas resources development;
  - (iv) active operation of foreign exchange;
- (f) KDB will enhance its resource allocation efficiency by:

- (i) giving priority to less energy-consuming projects;
- (ii) taking into account Korea's areas of international competitive advantage when evaluating export-oriented and import substitution projects;
- (iii) evaluating the forward and backward linkages of all capital and technology intensive projects; and
- (iv) scrutinizing carefully the employment impact of all industrial projects (with particular regard to regional distribution of employment and to income distribution effects) especially in consideration of recent economic slow-down.

3. Resource Mobilization. In line with its objective of intensifying its efforts at raising private resources, KDB plans to:

- (a) issue domestic bonds (IFDs) for a total amount of W1,500 billion; and
- (b) borrow from the foreign commercial markets a total amount of US\$1.95 billion during the three-year period 1983-85.

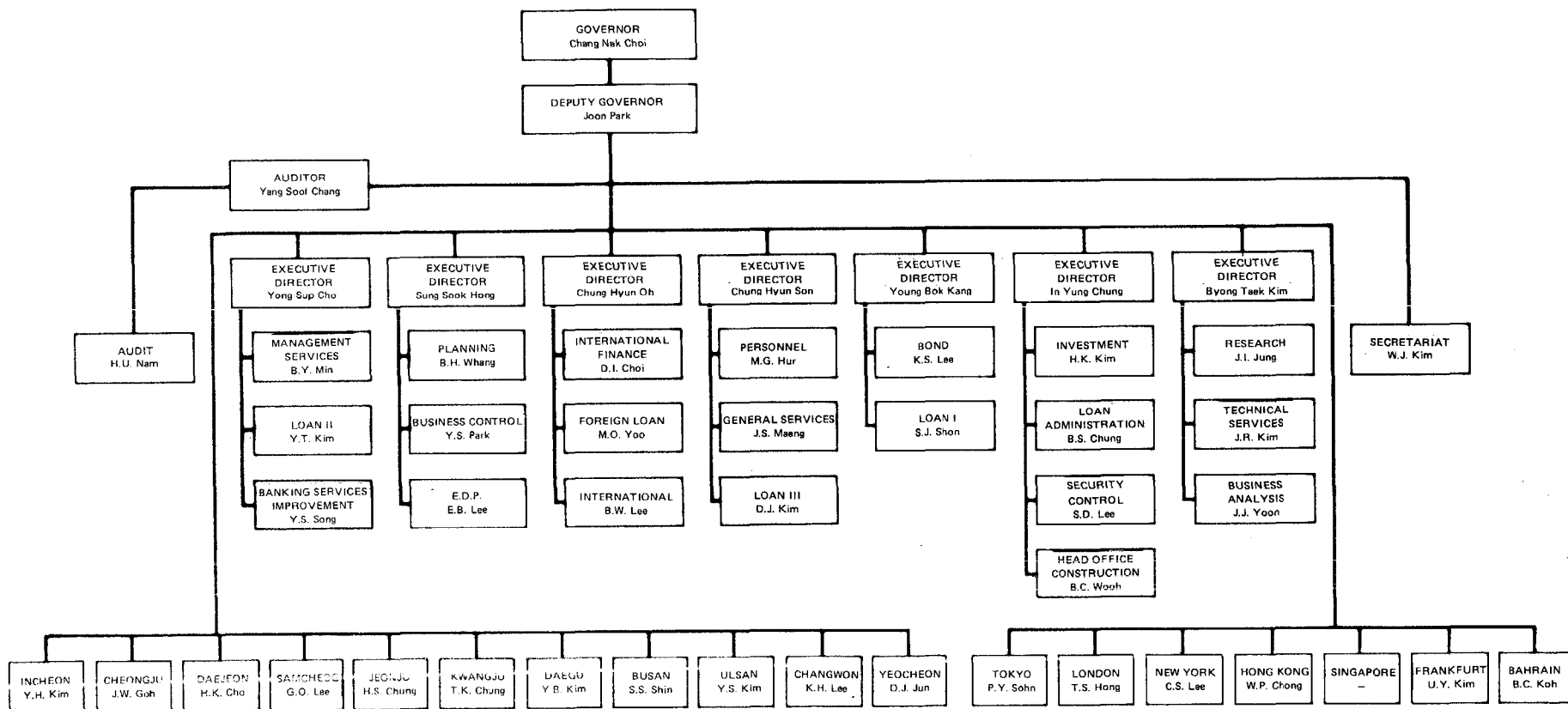
4. Research and Inputs into Government Policy Formation. KDB plans to research the following items for the improvement of its operation and for the establishment of the Government policy:

- (a) technology development financing policy;
- (b) strategic industries in 1980s;
- (c) industrial financing system under open economy system;
- (d) strengthening of economic cooperation with foreign countries;
- (e) industries of comparative advantage.

5. Organization

- (a) KDB will continue to enhance professional abilities of its staff through adequate training courses provided by domestic and foreign institutions; and
- (b) to deal with the problem of data collection and processing KDB will further develop computerization of its banking operations.

**KOREA**  
**THE KOREA DEVELOPMENT BANK**  
**Organization Chart**  
**(As of February 28, 1983)**



KOREA

INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

List of Directors of KLB

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Directors

Bong Eun Kim	Chairman /a
Tae Yong Hahm	President /b
Kyu Hong Um	Deputy President /a
Kwang Kyun Kim	Managing Director /a
Yun Soo Kim	Managing Director /a
Il Kyu Kang	Managing Director /a
Chin Hyung Kim	Counsellor, Korea Long-Term Credit Bank
Eyung Hi Chang	Chairman, Young Poong Trading Co., Ltd.
Woo Dong Cho	Chairman, Dong Bang Life Insurance Co., Ltd.
Tae Sup Choi	Chairman, Hankuk Glass Industry Co., Ltd.
Choon Taik Chung	Chairman and President, Korea Exchange Bank
Ju Yung Chung	Chairman, Federation of Korean Industries
Cha Kyung Koo	Chairman, Lucky Group
Pil Sun Lee	Chairman and President, Korea First Bank
Sung Taek Suh	Chairman, Board of Trustees, Kookmin University Foundation
Armin Frauenknecht	Vice President, Union Bank of Switzerland, Hong Kong Branch
Keisuke Fukuda	General Manager, Bank of Tokyo, Ltd., Seoul Branch
James R. Medley	Manager for Korea, the Chartered Bank, Seoul Branch
Naokado Nishihara	Special Representative in the Far East, International Finance Corporation

Auditors

Rack Koo Kim	Auditor-Inspector
Soo Chang Chung	Chairman, Korea Chamber of Commerce and Industry
Bong Jai Kim	Former President of Korea Federation of Small Business

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/a Member of the Executive Committee.

/b Chairman of the Executive Committee.

AEFID

January 3, 1983

## KOREA

## INDUSTRIAL FINANCE PROJECT

## Korea Long-Term Credit Bank

## Summary of Operations (1968-82)

	1968-77		1978		1979		1980		1981		1982		Total 1968-82	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<b>Domestic Currency Loans (W mln)</b>														
Approvals	92	8,813	21	2,986	23	3,200	273	68,940	249	128,869	245	112,766	903	325,574
Commitments	92	8,755	20	2,744	21	3,300	268	68,293	255	124,529	244	112,865	900	320,486
Disbursements	-	7,686	-	3,172	-	3,392	-	66,857	-	119,137	-	116,310	-	316,554
Repayments	-	5,172	-	967	-	1,344	-	3,196	-	22,731	-	61,709	-	95,074
Outstanding at year-end	41	2,559	52	4,764	68	6,812	312	70,473	483	166,879	574	221,480	574	221,480
<b>Equity Investments (W mln)</b>														
Approvals	45	4,164	12	1,775	11	1,468	3	972	4	2,522	2	1,500	77	12,401
Commitments	45	4,164	12	1,775	11	1,468	3	972	4	2,522	2	1,500	77	12,401
Disbursements	-	3,628	-	2,036	-	1,550	-	1,115	-	2,572	-	1,000	-	11,901
Converted from debentures	7	869	1	30	-	-	-	-	-	-	-	-	8	899
Sales of equity	-	320	-	76	-	69	-	1,179	-	-	-	719	-	5,246
Transfers /a	-	-	-	-	-	-	-	2,883	-	-	-	-	-	-
Outstanding at year-end	50	4,186	64	6,176	73	7,657	38	4,701	43	7,273	41	7,554	41	7,554
<b>Debentures (W mln)</b>														
Approvals	22	2,480	-	-	5	810	32	11,067	42	21,890	23	11,627	124	47,874
Commitments	22	2,480	-	-	4	760	32	10,852	19	22,155	17	7,077	118	43,324
Disbursements	-	2,480	-	-	-	460	-	11,152	-	20,629	-	8,455	-	43,176
Repayments	-	678	-	415	-	183	-	155	-	1,741	-	11,777	-	14,949
Converted into equity	7	869	1	30	-	-	-	-	-	-	-	-	8	899
Outstanding at year-end	9	933	6	488	8	765	39	11,762	72	30,650	67	27,328	67	27,328
<b>Revolving Funds (US\$'000)</b>														
Approvals	-	-	-	-	7	1,767	18	4,281	27	9,424	5	5,400	57	20,872
Commitments	-	-	-	-	7	1,767	15	3,981	27	9,458	6	5,411	55	20,617
Disbursements	-	-	-	-	-	1,767	-	3,981	-	7,084	-	7,785	-	20,617
Repayments	-	-	-	-	-	-	-	-	-	4,838	-	4,448	-	9,286
Add: Fluctuations from foreign exchange rates	-	-	-	-	-	267	-	(148)	-	(119)	-	(200)	-	(200)
Outstanding at year-end	-	-	-	-	7	2,034	22	5,867	32	7,994	20	11,131	20	11,131
<b>Foreign Currency Loans (US\$'000)</b>														
Approvals	307	279,446	61	94,948	86	122,962	117	130,989	76	141,322	142	60,046	789	829,713
Commitments	268	271,279	66	82,900	80	125,282	99	96,469	107	131,263	127	102,393	774	809,586
Disbursements	-	214,806	-	87,583	-	114,174	-	103,159	-	125,085	-	131,897	-	776,704
Repayments	-	41,379	-	18,589	-	23,446	-	33,071	-	47,620	-	61,124	-	225,229
Add: Fluctuations from foreign exchange rates	-	18,302	-	23,419	-	(10,546)	-	(12,944)	-	(20,964)	-	(14,920)	-	(17,653)
Outstanding at year-end	245	191,729	299	284,142	365	364,324	428	421,468	510	477,968	635	533,822	635	533,822
<b>Total (W mln equivalent)</b>														
Approvals /b	466	141,593	94	50,811	132	65,972	443	170,568	398	259,210	417	175,023	1,950	863,177
Commitments /b	454	138,563	98	44,726	123	67,147	417	146,645	436	248,091	396	202,370	1,924	847,542
Disbursements	-	110,524	-	47,686	-	61,633	-	150,083	-	235,213	-	230,624	-	835,763
Repayments and transfers	-	25,087	-	10,474	-	12,967	-	29,316	-	61,384	-	123,430	-	262,557
Add: Fluctuations from foreign exchange rates	-	15,170	-	11,358	-	(4,985)	-	56,275	-	2,450	-	11,975	-	98,252
Outstanding at year-end	345	100,667	421	149,237	521	192,918	839	369,960	1,140	546,289	1,317	665,458	1,337	665,458
<b>Domestic Currency Guarantees (W mln)</b>														
Approvals	3	-	-	-	-	-	1	270	2	3,141	4	580	10	4,445
Outstanding at year-end	2	424	2	403	1	200	2	470	2	1,446	5	1,379	5	1,379
<b>Foreign Currency Guarantees (US\$'000)</b>														
Approvals	-	-	-	-	-	-	2	7,083	-	587	-	-	2	7,680
Outstanding at year-end	-	-	-	-	-	-	1	781	2	4,960	1	3,422	1	3,422
<b>Total Guarantees (W mln equivalent)</b>														
Approvals	3	-	-	-	-	-	3	4,961	2	2,698	4	580	12	9,556
Outstanding at year-end	2	424	2	403	1	200	3	987	4	4,931	6	5,748	6	5,748

/a Transfer to the marketable security account of current assets in balance sheet.

/b Foreign exchange rate applied: US\$1.00 = W 281.9 for 1968, W 309.2 for 1969, W 317.4 for 1970, W 374.1 for 1971, W 399.7 for 1972, W 392.5 for 1973, W 485.0 for 1974-79, W 662.3 for 1980, W 702.7 for 1981, and W 750.7 for 1982.

AEPID  
February 1983

**KORRA**  
**INDUSTRIAL FINANCE PROJECT**

**Korea Long-Term Credit Bank**  
**Characteristics of Loans Approved, 1968-82**  
(W million, US\$ '000)

	1968-77					1978					1979					1980					1981					1982					1968-82				
	No.	W	US\$	Total W equiv.	X	No.	W	US\$	Total W equiv.	X	No.	W	US\$	Total W equiv.	X	No.	W	US\$	Total W equiv.	X	No.	W	US\$	Total W equiv.	X	No.	W	US\$	Total W equiv.	X	No.	W	US\$	Total W equiv.	X
<b>Type of Loans</b>																																			
Domestic currency	92	8,813	-	8,813	6.5	21	2,986	-	2,986	6.1	23	3,200	-	3,200	4.7	273	68,940	-	68,940	43.5	249	128,869	-	128,869	54.9	245	112,766	-	112,766	69.7	903	325,574	-	325,574	40.5
Foreign currency	107	-	279,446	126,136	93.5	81	94,948	46,050	93.9	93	124,729	60,494	95.3	135	-	135,270	89,589	56.5	103	-	150,746	105,929	45.1	147	-	65,446	49,130	30.3	846	-	850,385	477,328	99.5		
<b>Total</b>	<b>399</b>	<b>8,813</b>	<b>279,446</b>	<b>134,949</b>	<b>100.0</b>	<b>82</b>	<b>2,986</b>	<b>94,948</b>	<b>49,036</b>	<b>100.0</b>	<b>116</b>	<b>3,200</b>	<b>124,729</b>	<b>63,694</b>	<b>100.0</b>	<b>408</b>	<b>68,940</b>	<b>135,270</b>	<b>158,529</b>	<b>100.0</b>	<b>352</b>	<b>128,869</b>	<b>150,746</b>	<b>234,798</b>	<b>100.0</b>	<b>392</b>	<b>112,766</b>	<b>65,446</b>	<b>161,896</b>	<b>100.0</b>	<b>1,749</b>	<b>325,574</b>	<b>850,385</b>	<b>802,902</b>	<b>100.0</b>
<b>Purpose of Loans</b>																																			
New projects	122	1,970	88,585	42,299	31.3	11	100	17,278	8,480	17.3	16	1,000	36,923	18,908	29.7	30	3,850	42,000	31,667	20.0	26	8,334	1,175	9,159	3.9	95	13,279	33,781	38,638	23.9	300	28,533	219,742	149,151	18.6
Expansion	179	3,491	172,190	80,608	59.7	46	1,340	69,889	35,236	71.9	73	1,700	84,606	42,734	67.1	117	10,796	80,176	63,896	43.3	119	28,245	139,237	126,087	53.7	92	6,372	10,076	13,963	8.6	628	51,944	556,174	362,497	45.1
Rebuilding, modernization and replacement	29	250	18,671	8,940	6.6	5	-	7,781	3,774	7.7	2	-	1,892	913	1.4	35	4,464	8,194	9,891	6.2	5	240	(740)	(280)	(0.1)	19	1,260	7,807	7,121	4.4	95	6,214	43,995	30,339	3.8
Working capital	26	2,767	-	2,767	2.1	7	1,005	-	1,005	2.2	8	500	1,318	1,139	1.8	226	49,830	4,900	53,075	33.5	201	91,850	11,074	99,632	42.4	184	91,815	13,392	101,868	62.9	652	237,767	30,664	239,466	32.3
Others	4	335	-	335	0.3	2	541	-	541	1.1	-	-	-	-	-	-	-	-	-	-	1	200	-	200	0.1	2	40	390	333	0.2	9	1,116	390	1,409	0.2
<b>Total</b>	<b>360</b>	<b>8,813</b>	<b>279,446</b>	<b>134,949</b>	<b>100.0</b>	<b>73</b>	<b>2,986</b>	<b>94,948</b>	<b>49,036</b>	<b>100.0</b>	<b>99</b>	<b>3,200</b>	<b>124,729</b>	<b>63,694</b>	<b>100.0</b>	<b>408</b>	<b>68,940</b>	<b>135,270</b>	<b>158,529</b>	<b>100.0</b>	<b>352</b>	<b>128,869</b>	<b>150,746</b>	<b>234,798</b>	<b>100.0</b>	<b>392</b>	<b>112,766</b>	<b>65,446</b>	<b>161,896</b>	<b>100.0</b>	<b>1,684</b>	<b>325,574</b>	<b>850,385</b>	<b>802,902</b>	<b>100.0</b>
<b>Size of Loans (W million)</b>																																			
Below 100	75	1,134	8,156	4,630	3.4	13	80	1,328	724	1.5	16	420	1,449	1,123	1.8	97	6,823	614	7,230	4.6	55	2,664	228	2,824	1.2	86	3,028	1,425	4,098	2.5	342	14,149	13,200	20,629	2.6
100 - 200	96	3,240	25,065	14,463	10.7	16	530	3,118	2,091	4.3	22	350	5,847	3,186	5.0	99	14,531	4,098	17,205	10.8	51	4,248	2,016	5,664	2.4	75	5,881	6,506	10,765	6.7	339	28,760	46,090	33,374	6.6
200 - 400	81	2,719	42,618	21,422	15.9	15	1,476	5,458	4,173	8.4	18	280	9,379	4,829	7.6	104	18,036	19,280	30,805	19.4	79	14,446	7,091	19,429	8.3	92	12,658	15,846	24,553	15.2	389	49,615	99,672	105,161	13.1
400 - 600	28	430	27,687	12,745	9.4	6	600	4,830	2,942	6.0	9	400	8,407	4,477	7.0	47	17,300	9,705	23,728	15.0	49	17,770	5,180	21,410	9.1	34	16,339	12,737	25,901	16.0	193	32,899	66,346	91,203	11.4
600 - 800	28	800	35,382	16,205	12.0	4	-	5,785	2,806	5.7	5	50	8,864	3,379	5.3	15	2,300	12,161	10,354	6.5	20	9,221	3,619	11,764	5.0	16	7,445	4,127	10,543	6.5	88	18,816	66,138	55,031	6.8
800 - 1,000	20	100	37,372	16,364	12.3	3	100	5,224	2,634	5.6	7	150	12,653	6,287	9.9	20	7,950	15,941	18,508	11.7	2	2,500	(1,132)	1,703	0.7	19	8,820	10,694	16,848	10.4	71	19,620	80,752	62,546	7.8
Above 1,000	32	370	102,966	48,520	36.3	16	200	59,105	33,716	68.7	22	1,550	80,130	40,413	63.4	26	2,000	79,331	90,699	32.0	96	78,020	133,744	172,002	73.3	50	58,595	14,111	69,188	42.7	242	140,735	473,567	414,938	51.7
<b>Total</b>	<b>360</b>	<b>8,813</b>	<b>279,446</b>	<b>134,949</b>	<b>100.0</b>	<b>73</b>	<b>2,986</b>	<b>94,948</b>	<b>49,036</b>	<b>100.0</b>	<b>99</b>	<b>3,200</b>	<b>124,729</b>	<b>63,694</b>	<b>100.0</b>	<b>408</b>	<b>68,940</b>	<b>135,270</b>	<b>158,529</b>	<b>100.0</b>	<b>352</b>	<b>128,869</b>	<b>150,746</b>	<b>234,798</b>	<b>100.0</b>	<b>392</b>	<b>112,766</b>	<b>65,446</b>	<b>161,896</b>	<b>100.0</b>	<b>1,684</b>	<b>325,574</b>	<b>850,385</b>	<b>802,902</b>	<b>100.0</b>
<b>Maturity of Loans (years)</b>																																			
Up to 5	88	7,760	10,993	12,902	9.6	19	2,690	-	2,690	5.5	32	3,200	2,747	4,532	7.1	292	68,940	5,170	72,364	45.6	269	120,349	14,391	130,462	55.6	269	113,566	16,272	125,781	77.7	969	316,505	49,573	348,737	43.4
5 - 7	42	683	25,292	11,143	8.3	5	-	1,515	733	1.5	5	-	921	447	0.7	36	-	32,370	21,439	13.5	33	8,520	57,095	48,640	20.7	32	(800)	(1,316)	(1,788)	(1.1)	153	8,403	114,177	80,616	10.1
7 - 9	156	145	111,519	50,010	37.1	4	-	9,852	4,778	9.7	24	-	19,936	9,669	15.2	26	-	33,621	22,267	14.0	2	-	2,645	1,858	0.8	4	-	798	999	0.4	216	145	178,371	89,181	11.1
9 - 12	103	215	108,105	50,854	37.7	50	296	73,281	36,807	73.1	55	-	101,125	49,066	77.0	54	-	64,109	42,439	26.9	47	-	71,615	50,326	21.4	87	-	49,812	37,394	23.1	396	511	470,047	266,884	33.2
Over 12	10	10	23,237	10,034	7.3	2	-	8,100	4,026	8.2	-	-	-	-	-	-	-	-	-	-	1	-	5,000	3,514	1.5	-	-	(120)	(90)	(0.1)	13	10	38,417	17,464	2.2
<b>Total</b>	<b>399</b>	<b>8,813</b>	<b>279,446</b>	<b>134,949</b>	<b>100.0</b>	<b>80</b>	<b>2,986</b>	<b>94,948</b>	<b>49,036</b>	<b>100.0</b>	<b>116</b>	<b>3,200</b>	<b>124,729</b>	<b>63,694</b>	<b>100.0</b>	<b>408</b>	<b>68,940</b>	<b>135,270</b>	<b>158,529</b>	<b>100.0</b>	<b>352</b>	<b>128,869</b>	<b>150,746</b>	<b>234,798</b>	<b>100.0</b>	<b>392</b>	<b>112,766</b>	<b>65,446</b>	<b>161,896</b>	<b>100.0</b>	<b>1,747</b>	<b>325,574</b>	<b>850,385</b>	<b>802,902</b>	<b>100.0</b>
<b>Geographical Distribution</b>																																			
Seoul area	101	2,634	49,984	25,124	18.6	12	1,476	15,771	9,125	18.6	10	170	13,417	6,677	10.5	75	16,207	12,187	24,277	15.3	84	32,820	25,527	50,758	21.6	103	37,619	18,381	51,568	31.8	385	10,926	135,467	167,328	20.9
Busan area	27	630	18,936	9,333	6.9	11	10	5,160	2,630	5.4	10	350	15,624	7,927	12.5	31	3,240	20,709	16,956	10.7	27	7,240	(6,913)	2,382	1.0	44	8,832	12,889	18,528	11.4	150	20,342	66,425	37,777	7.2
Kyunggi-Do	87	3,318	55,581	28,312	21.0	10	930	7,164	4,004	8.2	29	1,080	24,649	13,035	20.5	11	16,457	41,036	44,233	27.9	88	23,357	11,990	31,782	13.5	86	25,741	5,394	29,790	18.4	413	70,683	146,414	151,156	18.8
Kyungsaengbuk-Do	49	943	28,394	12,923	9.4	9	150	2,979	1,595	3.3	22	450	24,809	12,482	19.6	76	12,338	20,031	25,605	16.1	35	10,451	10,950	18,146	7.7	45	9,779	3,336	12,283	7.6	236	34,111	88,499	83,036	10.3
Kyungsaengnam-Do	13	313	16,794	8,143	6.0	10	-	19,554	9,483	19.3	12	200	14,447	7,207	11.3	52	4,915	4,310	7,770	4.9	38	12,745	6,045	16,993	7.3	31	8,428	5,350	12,444	7.7	134	26,601	66,500	62,038	7.7
Chungcheongbuk-Do	4	126	2,312	1,198	0.9	1	-	3,600	1,746	3.6	1	-	2,000	970	1.5	14	2,808	5,400	6,384	4.0	4	900	180	1,097	0.5	8	7,180	1,543	3,338	2.1	32	6,014	14,934	14,653	1.8
Chungcheongnam-Do	4	270	4,707	2,252	1.7	2	200	4,700	2,480	5.0	-	-	-	-	-	16	7,125	7,162	6,868	4.3	8	2,789	1,750	4,019	5.7	16	4,432	7,115	9,773	6.0	46	9,816	25,434	25,392	3.2
Chunabuk-Do	3	252	1,516	853	0.6	4	-	7,819	3,695	7.5	3	200	535	460	0.7	4	-	8,520	5,643	3.6	4	1,450	646	1,904	0.8	4	310	37	282	0.2	22				

KOREA  
INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Sectoral Distribution of Loans Approved, 1968-82/a  
(W million, US\$'000)

	1968-77					1978					1979					1980				
	Amount					Amount					Amount					Amount				
	No.	W	US\$	Total W equiv.	%	No.	W	US\$	Total W equiv.	%	No.	W	US\$	Total W equiv.	%	No.	W	US\$	Total W equiv.	%
Agriculture	10	613	2,552	1,840	1.4	3	-	380	184	0.4	5	100	3,125	1,616	2.5	1	550	(2,182)	(895)	(0.6)
Fishing	27	-	23,973	10,141	7.5	3	-	3,909	1,896	3.9	-	-	-	-	-	9	700	2,435	2,313	1.5
Mining and quarrying	7	320	3,507	1,944	1.4	-	-	-	-	-	1	-	460	223	0.4	7	1,140	2,600	2,862	1.8
Food and beverage	23	285	13,474	5,845	4.3	2	-	3,175	1,340	3.1	3	-	7,250	3,516	5.5	31	5,622	7,429	10,542	6.6
Textiles, wearing apparel and leather	80	1,750	50,694	24,442	18.1	13	350	2,684	1,652	3.4	19	380	16,654	8,457	13.3	79	11,840	31,537	32,727	20.6
Wood and wood products	1	80	279	190	0.1	2	-	70	114	0.2	3	150	1,454	855	1.3	4	200	(105)	131	0.1
Paper and paper products	5	200	5,917	2,835	2.1	3	300	10,200	5,247	10.7	3	200	1,828	1,087	1.7	8	850	2,774	2,687	1.7
Chemicals, petroleum, coal, rubber and plastic products	36	1,201	24,233	12,378	9.2	7	380	12,601	6,492	13.2	10	750	12,717	6,918	10.9	59	11,010	21,201	25,051	15.8
Nonmetallic mineral products	35	734	15,778	7,639	5.7	7	200	9,347	4,733	9.7	12	420	14,580	7,491	11.8	33	7,556	4,065	10,248	6.6
Basic metals	10	450	12,690	6,030	4.5	1	-	3,895	1,889	3.8	4	500	17,170	8,828	13.9	30	3,376	12,756	11,824	7.4
Metal products, machinery and equipment	65	2,183	37,181	19,401	14.4	16	330	22,948	11,460	23.4	28	500	24,721	12,489	19.6	86	15,251	10,159	21,979	13.8
Marine transportation services	28	200	52,259	23,751	17.6	6	200	12,900	6,456	13.2	4	-	15,100	7,324	11.5	17	2,100	10,887	9,311	5.9
Other services	33	297	36,907	18,504	13.7	10	1,146	12,839	7,573	15.0	7	200	9,670	4,890	7.6	44	8,745	31,714	29,749	18.8
<u>Total</u>	<u>360</u>	<u>6,812</u>	<u>279,444</u>	<u>136,969</u>	<u>100.0</u>	<u>72</u>	<u>2,986</u>	<u>94,949</u>	<u>49,036</u>	<u>100.0</u>	<u>90</u>	<u>3,200</u>	<u>124,728</u>	<u>63,694</u>	<u>100.0</u>	<u>408</u>	<u>68,940</u>	<u>135,270</u>	<u>158,529</u>	<u>100.0</u>



	1981					1982					1982				
	Amount					Amount					Amount				
	No.	W	US\$	Total W equiv.	%	No.	W	US\$	Total W equiv.	%	No.	W	US\$	Total W equiv.	%
Agriculture	2	100	(8)	94	0.1	4	1,520	178	1,654	1.0	25	2,883	4,045	4,493	0.6
Fishing	7	7,947	3,746	10,579	4.5	13	3,870	5,066	7,673	4.7	69	12,517	39,131	32,602	4.1
Mining and quarrying	1	600	(2,870)	(1,417)	(0.6)	3	800	(5)	796	0.5	19	2,860	3,692	4,408	0.6
Food and beverage	21	14,199	7,693	19,605	8.3	38	11,735	2,522	13,628	8.4	118	31,841	41,543	54,676	6.8
Textiles, wearing apparel and leather	65	17,322	14,004	27,163	11.6	65	11,487	18,561	25,421	15.7	321	43,129	134,134	119,862	14.9
Wood and wood products	11	3,950	1,151	4,759	2.0	4	1,000	358	1,269	0.8	25	5,460	3,207	7,318	0.9
Paper and paper products	13	3,460	(162)	3,346	1.4	16	3,301	2,444	5,136	3.2	48	2,311	23,001	20,338	2.5
Chemicals, petroleum, coal, rubber and plastic products	44	19,741	8,793	25,920	11.0	44	14,418	(3,334)	11,915	7.4	200	47,500	76,211	88,674	11.0
Nonmetallic mineral products	20	11,880	4,820	15,267	6.5	20	1,800	9,711	9,090	5.6	127	22,590	58,301	54,468	6.8
Basic metals	18	5,279	1,163	6,096	2.6	24	5,580	4,276	8,790	5.4	87	15,185	51,950	43,466	5.4
Metal products, machinery and equipment	61	20,631	14,609	30,897	13.2	78	30,684	9,628	37,912	23.4	334	69,579	119,246	134,138	16.7
Marine transportation services	30	4,920	86,652	65,810	28.0	31	4,500	1,747	5,811	3.6	116	11,920	179,545	118,463	14.8
Other services	49	18,840	11,155	26,679	11.4	52	22,071	14,294	32,801	20.3	195	51,799	116,579	119,996	14.9
<u>Total</u>	<u>352</u>	<u>128,869</u>	<u>150,746</u>	<u>234,798</u>	<u>100.0</u>	<u>392</u>	<u>112,766</u>	<u>65,446</u>	<u>161,896</u>	<u>100.0</u>	<u>1,684</u>	<u>325,574</u>	<u>850,585</u>	<u>802,902</u>	<u>100.0</u>

/a Exchange rates approved: US\$1.00 = W 281.90 for 1968, W 309.20 for 1969, W 317.40 for 1970, W 374.10 for 1971, W 399.70 for 1972, W 398.50 for 1973, W 485.00 for 1974-79, W 662.30 for 1980, W 702.70 for 1981 and W 744.80 for 1982.

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Februarv 1983

KOREA  
INDUSTRIAL FINANCE PROJECT

## Korea Long-Term Credit Bank

Characteristics of Equity and Convertible Debenture Investments Approved, 1968-82  
(₩ million)

## A. Equity

	1968-77			1978			1979			1980			1981			1982			1983		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
<b>Purpose</b>																					
New establishment	8	1,722	41.4	1	100	5.6	2	112	7.6	-	-	-	-	(43)	(1.7)	1	1,000	66.7	12	2,891	23.3
<b>Expansion</b>																					
Rights issue	20	997	23.9	10	1,375	77.5	9	1,356	92.4	3	972	100.0	2	272	10.8	-	-	-	44	4,972	40.1
New acquisition	17	1,445	34.7	1	300	16.9	-	-	-	-	-	-	2	2,293	90.9	1	500	33.3	21	4,538	36.6
Subtotal	37	2,442	58.6	11	1,675	94.4	9	1,356	92.4	3	972	100.0	4	2,565	101.7	1	500	33.3	65	9,510	76.7
Total	45	4,164	100.0	12	1,775	100.0	11	1,468	100.0	3	972	100.0	4	2,522	100.0	2	1,500	100.0	77	12,401	100.0
<b>Loan</b>																					
With loan approval (equity + loan)	33	2,933	70.4	3	728	41.0	3	472	32.2	-	-	-	2	272	10.8	-	-	-	41	4,405	35.5
Without loan approval	12	1,231	29.6	9	1,047	59.0	8	996	67.8	3	972	100.0	2	2,250	89.2	2	1,500	100.0	36	7,996	64.5
Total	45	4,164	100.0	12	1,775	100.0	11	1,468	100.0	3	972	100.0	4	2,522	100.0	2	1,500	100.0	77	12,401	100.0
<b>Size Distribution</b>																					
Below 100	34	1,244	29.9	6	246	13.9	8	441	30.0	-	-	-	1	(21)	(0.8)	-	-	-	49	1,910	15.4
100 - 199	6	840	20.2	3	306	17.2	1	100	6.8	1	135	13.9	-	-	-	-	-	-	11	1,381	11.1
200 - 299	2	569	13.7	-	-	-	-	-	-	1	277	28.5	1	250	9.9	-	-	-	4	1,096	8.9
Over 300	3	1,511	36.2	3	1,223	68.9	2	927	63.2	1	560	57.6	2	2,293	90.9	2	1,500	100.0	13	8,014	64.6
Total	45	4,164	100.0	12	1,775	100.0	11	1,468	100.0	3	972	100.0	4	2,522	100.0	2	1,500	100.0	77	12,401	100.0
<b>Listing</b>																					
Listed	17	1,649	39.6	7	1,495	84.2	6	903	61.5	3	972	100.0	2	2,293	90.9	-	-	-	35	7,312	59.0
Unlisted	28	2,515	60.4	5	280	15.8	5	565	38.5	-	-	-	2	229	9.1	2	1,500	100.0	42	5,089	41.0
Total	45	4,164	100.0	12	1,775	100.0	11	1,468	100.0	3	972	100.0	4	2,522	100.0	2	1,500	100.0	77	12,401	100.0
<b>Geographical Distribution</b>																					
Seoul	9	1,498	36.0	1	535	30.1	4	1,032	70.3	1	277	28.5	2	2,250	89.2	2	1,500	100.0	19	7,092	57.2
Busan	4	515	12.4	2	488	27.5	-	-	-	-	-	-	-	-	-	-	-	-	6	1,003	8.1
Kyunggi-do	19	625	15.0	6	412	23.2	6	396	27.0	1	135	13.9	2	272	10.8	-	-	-	34	1,840	14.8
Kyungsangbuk-do	1	50	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	50	0.4
Kyungsangnam-do	6	710	17.0	2	40	2.3	1	40	2.7	1	560	57.6	-	-	-	-	-	-	10	1,350	10.9
Chungchungbuk-do	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chungchungnam-do	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chunnabuk-do	3	191	4.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	191	1.5
Chunnamnam-do	2	525	12.6	1	300	16.9	-	-	-	-	-	-	-	-	-	-	-	-	3	825	6.7
Marine transportation	1	50	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	50	0.4
Total	45	4,164	100.0	12	1,775	100.0	11	1,468	100.0	3	972	100.0	4	2,522	100.0	2	1,500	100.0	77	12,401	100.0
<b>Sectoral Distribution</b>																					
<b>Manufacturing Industries</b>																					
<b>Consumer Goods Industries</b>																					
Food, beverage and tobacco	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Textile, wearing apparel and leather	12	388	9.3	-	-	-	-	-	-	-	-	-	1	22	0.9	-	-	-	13	410	3.3
Printing and publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	12	388	9.3	-	-	-	-	-	-	-	-	-	1	22	0.9	-	-	-	13	410	3.3
<b>Intermediate Goods Industries</b>																					
Wood and wood products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Paper and paper products	2	122	2.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	122	1.0
Chemical, rubber, plastic, petroleum and coal	8	974	23.4	4	820	46.2	2	85	5.8	2	837	-	1	252	9.9	-	-	-	17	2,966	23.9
Nonmetallic mineral products	3	133	3.2	2	40	2.2	2	95	6.5	-	-	-	-	-	-	-	-	-	7	268	2.2
Subtotal	13	1,229	29.5	6	860	48.4	4	180	12.3	2	837	-	1	252	9.9	-	-	-	26	3,356	27.1
<b>Capital Goods Industries</b>																					
Basic metal	1	485	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	485	3.9
Metal products	4	150	3.6	-	-	-	1	62	4.2	-	-	-	-	-	-	-	-	-	5	212	1.7
Machinery (excl. electric)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electrical machinery, apparatus, appliance and supplies	3	123	3.0	3	228	12.9	2	198	13.5	1	135	-	(1)	(53)	(2.0)	-	-	-	8	634	5.1
Transport equipment	2	172	4.1	1	52	2.9	1	51	3.5	-	-	-	-	-	-	-	-	-	4	275	2.2
Subtotal	10	930	22.3	4	280	15.8	4	311	21.2	1	135	-	(1)	(53)	(2.0)	-	-	-	18	1,606	12.9
<b>Misc. Manufacturing Industries</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	35	2,547	61.2	10	1,140	64.2	8	491	33.4	3	972	-	1	222	8.8	-	-	-	57	5,372	43.3
<b>Nonmanufacturing Industries</b>																					
Agriculture and forestry, fishery	3	125	3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	125	1.0
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity and water works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Marine transportation, storage and warehousing	1	50	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	50	0.4
Banking and insurance	5	1,273	30.5	1	535	30.1	2	977	63.2	-	-	-	3	2,300	91.2	2	1,500	100.0	13	6,535	52.7
Hotel and tourism	1	169	4.1	1	100	5.7	-	-	-	-	-	-	-	-	-	-	-	-	2	269	2.2
Other	-	-	-	-	-	-	1	50	3.4	-	-	-	-	-	-	-	-	-	1	50	0.4
Total	10	1,617	38.8	2	635	35.8	3	977	66.6	-	-	-	3	2,300	91.2	2	1,500	100.0	20	7,629	61.7
<b>GRAND TOTAL</b>	45	4,164	100.0	12	1,775	100.0	11	1,468	100.0	3	972	100.0	4	2,522	100.0	2	1,500	100.0	77	12,401	100.0

## B. Bond and Convertible Debentures

		1966-77		1978		1979		1980		1981		1982		1986-82				
		No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%		
Purpose																		
New establishment	2	60	2.4	-	-	1	300	37.0	7	2,345	21.2	3	700	3.2	3	3,905	9.0	
Expansion	20	2,420	97.6	-	-	4	510	63.0	25	8,722	78.8	5	1,355	6.2	3	591	5.7	
Working capital	-	-	-	-	-	-	-	-	-	-	-	34	19,835	90.6	17	7,151	86.6	
Total	22	2,480	100.0	-	-	5	810	100.0	32	11,067	100.0	42	21,890	100.0	23	11,627	100.0	
Loan																		
With loan approval	12	1,245	50.2	-	-	3	410	50.6	4	737	6.7	13	7,597	34.7	5	4,453	31.7	
Without loan approval	10	1,235	49.8	-	-	2	400	49.4	28	10,330	93.3	29	14,293	65.3	18	7,177	68.3	
Total	22	2,480	100.0	-	-	5	810	100.0	32	11,067	100.0	42	21,890	100.0	23	11,627	100.0	
State Participation																		
Rafel 100	8	260	10.5	-	-	2	110	13.6	2	190	1.7	6	267	1.2	5	246	1.5	
100 - 199	9	1,020	41.1	-	-	-	-	-	5	662	6.0	6	703	3.2	3	350	3.4	
200 - 299	4	900	36.3	-	-	2	400	49.4	8	1,715	15.5	3	600	2.8	1	281	2.4	
Over 300	1	300	12.1	-	-	1	300	37.0	17	8,500	76.8	27	26,320	92.8	14	10,750	87.7	
Total	22	2,480	100.0	-	-	5	810	100.0	32	11,067	100.0	42	21,890	100.0	23	11,627	100.0	
Leasing																		
Leased	5	800	32.3	-	-	2	400	49.4	13	5,022	45.4	10	16,800	49.3	6	6,250	31.0	
Unleased	17	1,680	67.7	-	-	3	410	50.6	19	6,045	54.6	32	11,090	50.7	17	5,427	69.0	
Total	22	2,480	100.0	-	-	5	810	100.0	32	11,067	100.0	42	21,890	100.0	23	11,627	100.0	
Geographical Distribution																		
Seoul	7	780	31.5	-	-	-	-	-	14	6,172	55.8	12	7,503	34.3	6	1,945	16.9	
Busan	2	350	14.1	-	-	1	200	24.7	-	-	-	-	2	2,281	11.6	1	0.5	0.5
Kyunggi-Do	7	660	26.6	-	-	3	410	50.6	11	2,965	26.8	15	4,047	18.5	6	2,281	11.6	
Kyungsaingbu-Do	-	-	-	-	-	-	-	-	2	330	3.2	5	2,940	13.4	3	1,350	11.6	
Kyungsaingnam-Do	1	200	8.1	-	-	-	-	-	-	-	-	-	2	1,500	16.2	-	-	-
Chungchingbuk-Do	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Chungchingnam-Do	1	60	2.4	-	-	-	-	-	2	500	4.5	1	300	1.4	-	-	-	
Chungchingnam-Do	1	250	10.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Chunabuk-Do	3	180	7.2	-	-	-	-	-	1	180	1.6	1	500	2.3	-	-	-	
Kanpore-Do	-	-	-	-	-	-	-	-	2	900	8.1	3	1,400	6.4	3	1,220	11.0	
Marine transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	22	2,480	100.0	-	-	5	810	100.0	32	11,067	100.0	42	21,890	100.0	23	11,627	100.0	
Manufacturing Industries																		
Food products	1	100	4.0	-	-	-	-	-	6	2,280	20.6	5	2,725	12.5	2	1,240	13.3	
Textile, wearing apparel and leather	3	370	14.9	-	-	-	-	-	5	1,500	13.6	12	3,264	14.9	3	2.1	1.8	
Printing and publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Subtotal	4	470	18.9	-	-	-	-	-	11	3,780	34.2	17	5,989	27.4	5	1,411	12.1	
Intermediate Goods Industries																		
Wood and wood products	2	50	2.0	-	-	-	-	-	2	210	1.9	2	114	0.5	1	100	0.9	
Paper and paper products	1	250	10.1	-	-	-	-	-	-	-	-	1	500	2.3	1	1,040	8.6	
Chemical, rubber, plastic, petroleum and coal	3	260	10.5	-	-	2	400	49.4	6	2,500	22.6	7	7,100	32.4	5	2,610	22.5	
Nonmetallic mineral products	4	750	30.2	-	-	-	-	-	1	90	0.8	1	1,000	4.6	3	3,900	33.5	
Subtotal	10	1,310	52.8	-	-	2	400	49.4	9	2,800	25.3	11	6,718	39.8	10	7,610	65.5	
Capital Goods Industries																		
Basic metal	-	-	-	-	-	-	-	-	2	222	2.0	6	4,350	19.3	-	-	-	
Metal products (excl. electric)	2	160	6.4	-	-	1	50	6.2 (1)	-	500	4.5	-	-	-	-	-	-	
Machinery (excl. electric)	1	100	4.0	-	-	1	60	7.4	1	500	4.5	-	-	-	-	-	-	
Electrical machinery, apparatus, appliance and supplies	2	180	7.3	-	-	-	-	-	2	400	3.6	-	-	-	2	330	2.6	
Transport equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Subtotal	5	440	17.7	-	-	2	100	13.6	4	1,072	9.7	6	4,350	19.3	2	330	2.6	
Misc. Manufacturing Industries																		
Total	19	2,220	89.5	-	-	4	510	63.0	25	8,132	73.7	36	19,390	88.5	17	9,331	80.2	
Nonmanufacturing Industries																		
Agriculture and forestry, fishery	3	260	10.5	-	-	-	-	-	1	1,000	9.0	-	-	-	-	4	1,260	2.6
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	500	1.1
Electricity and water works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	582	0.7
Construction	-	-	-	-	-	1	300	37.0	-	-	-	-	2	1,000	4.6	-	-	-
Marine transportation, storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	1,100	2.7
Other warehousing, repair and insurance	-	-	-	-	-	-	-	-	5	1,615	14.6	3	1,500	6.4	3	1,466	9.9	
Hotel and tourism	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	300	0.6
Other	-	-	-	-	-	-	-	-	1	300	2.7	1	100	0.5	-	-	-	
Total	3	260	10.5	-	-	1	300	37.0	7	2,915	26.3	6	2,500	11.5	6	2,386	19.8	
GRAND TOTAL	22	2,480	100.0	-	-	5	810	100.0	32	11,067	100.0	42	21,890	100.0	23	11,627	100.0	

AEPID  
February 1983

KOREA  
INDUSTRIAL FINANCE PROJECT  
Korea Long-Term Credit Bank  
Economic Impact of KLB-Financed Projects /a  
Partial Economic Indicators of Projects

	1968-74	1975/76	1977	1978	1979	1980	1981	1982	1968-82
No. of projects /b	172	110	62	73	96	79	60	89	741
Total project costs (E Won mln) /c	125,548	144,793	88,797	138,831	184,075	212,143	231,586	207,671	1,333,444
Amount of KDFC financing (E Won mln) /c	47,467	51,789	35,729	49,031	63,694	87,901	122,110	72,447	530,168
Share of KDFC financing (%)	37.8	35.8	40.2	35.3	34.6	41.4	52.7	34.9	39.8
Incremental annual sales (Won mln) /d	318,986	271,704	126,670	255,560	298,239	544,488	471,371	466,114	2,753,132
Incremental annual value added (Won mln) /d	80,316	90,795	49,098	93,011	128,414	182,996	124,609	115,674	873,913
Increase in fixed assets (Won mln)	96,718	116,293	62,499	122,043	157,772	180,496	192,848	165,187	1,093,856
Additional employment (number) /d	16,120	10,129	5,257	6,919	6,156	3,962	3,713	2,812	55,068
Additional annual payroll (Won mln) /d	12,147	17,037	14,021	18,558	10,247	14,373	12,661	12,332	120,376
Incremental annual gross exports (\$'000) /d	358,000	242,277	52,230	113,687	80,437	235,975	331,792	230,190	1,644,588
Net annual balance of payments effect (net foreign exchange earnings and savings) (\$'000) /d	229,000	218,871	40,058	94,302	104,032	264,300	438,615	309,849	1,709,027
Cost per job (Won '000)	7,788	14,294	16,891	20,065	29,905	53,544	62,372	73,851	24,214
<b>Memorandum Items</b>									
Sales per additional employee (Won '000)	19,788	26,824	24,005	36,936	48,447	137,427	126,952	165,759	49,995
Value added per additional employee (Won '000)	5,541	8,964	9,340	13,443	20,860	46,188	33,560	41,136	15,870
Fixed assets per additional employee (Won '000)	6,000	11,481	11,889	17,639	25,629	45,557	51,939	58,744	19,864
Fixed assets per additional employee (US\$) /e	16,395	23,672	24,513	36,369	52,843	73,479	76,380	78,850	
Annual payroll per additional employee (Won '000)	754	1,682	2,667	2,682	3,127	3,628	3,410	4,385	2,666
Ratio of sales to fixed assets	3.30	2.34	2.03	2.09	1.89	3.02	2.44	2.82	2.52
Ratio of value added to fixed assets	0.92	0.78	0.79	0.76	0.81	1.01	0.65	0.70	0.80
Ratio of value added to sales	0.28	0.33	0.39	0.36	0.43	0.34	0.26	0.25	0.32
Export share of sales (%) /e	41.1	43.2	20.0	21.6	13.1	26.9	47.9	36.8	33.2
Payroll share of value added (%)	13.6	18.8	28.6	20.0	15.0	7.9	10.2	10.7	13.8

/a Based on projections made in project appraisal reports; loans to KDFC Employees Fraternity in 1973, 1974, 1976 and 1978, and equity investment and debenture financing are excluded. This table covers all KDFC and RCB projects, KDLC is treated as one project for each of 1976 and 1978 respectively.

/b Net of projects subsequently withdrawn.

/c Won equivalent at varying exchange rates.

/d The magnitude of all these items is based on estimates of full capacity operations.

/e Applying average exchange rates for 1968-74; US\$1.00 = W 485.00 for 1975-79, US\$1.00 = W 620.0 in 1980, US\$1.00 = W 680.0 in 1981 and US\$1.00 = W 750.7 in 1982.

KOREAINDUSTRIAL FINANCE PROJECTKorea Long-Term Credit BankKLB's Financial Assistance to Small and Medium Enterprises /a  
(W million)

	Total approvals (A)		Small and medium enterprises (B)		B as % of A	
	Number	Amount	Number	Amount	By number	By amount
<u>1977</u>						
Loans	79	35,729	34	9,941	43.0	27.8
Debentures	4	480	2	230	50.0	47.9
Investments	10	887	4	268	40.0	30.2
<u>Total</u>	<u>93</u>	<u>37,096</u>	<u>40</u>	<u>10,439</u>	<u>43.0</u>	<u>28.1</u>
<u>1978</u>						
Loans	82	49,036	41	8,211	50.0	16.7
Debentures	-	-	-	-	-	-
Investments	12	1,775	3	160	25.0	9.0
<u>Total</u>	<u>94</u>	<u>50,811</u>	<u>44</u>	<u>8,371</u>	<u>46.8</u>	<u>16.5</u>
<u>1979</u>						
Loans	116	63,694	37	10,599	31.9	16.6
Debentures	5	810	1	60	20.0	7.4
Investments	11	1,468	3	205	27.3	14.0
<u>Total</u>	<u>132</u>	<u>65,972</u>	<u>41</u>	<u>10,864</u>	<u>31.1</u>	<u>16.5</u>
<u>1980</u>						
Loans	408	158,529	159	54,681	39.0	34.5
Debentures	32	11,067	11	2,935	34.4	26.5
Investments	3	972	-	-	-	-
<u>Total</u>	<u>443</u>	<u>170,568</u>	<u>170</u>	<u>57,616</u>	<u>38.4</u>	<u>33.8</u>
<u>1981</u>						
Loans	352	234,798	150	59,912	42.6	25.5
Debentures	42	21,890	16	3,650	38.1	16.7
Investments	4	2,522	-	200	-	7.9
<u>Total</u>	<u>398</u>	<u>259,210</u>	<u>166</u>	<u>63,762</u>	<u>41.7</u>	<u>24.6</u>
<u>1982</u>						
Loans	392	161,896	190	37,748	48.5	23.3
Debentures	23	11,627	8	1,406	34.8	12.1
Investments	2	1,500	1	500	50.0	33.3
<u>Total</u>	<u>417</u>	<u>175,023</u>	<u>199</u>	<u>39,654</u>	<u>47.7</u>	<u>22.7</u>
<u>1977-82</u>						
Loans	1,429	703,682	611	181,092	42.8	25.7
Debentures	106	45,874	38	8,281	35.8	18.1
Investments	42	9,124	11	1,333	26.2	14.6
<u>Total</u>	<u>1,577</u>	<u>758,680</u>	<u>660</u>	<u>190,706</u>	<u>41.9</u>	<u>25.1</u>

/a Includes firms employing not more than 300 full-time employees, or not more than 500 employees in the case of firms engaged in activities described in Attachment I to Presidential Decree No. 9370 (such labor-intensive industries as automobile parts, electronics and other machinery parts, etc.) issued with respect to the Small and Medium Industries Promotion Act of Korea.

## KOREA

## INDUSTRIAL FINANCE PROJECT

## Korea Long-Term Credit Bank

Subprojects Approved for Financing Under Loan 1635-KO  
(\$'000 and Won million)

Name of Company	Type of industry	Purpose of Loan	Project cost			KLB financing				Incremental			Cost per job	FRR/(ERR)
			Local (W)	Foreign (\$)	Total (\$)	Local (W mln)	Foreign (\$)	Total (ES)	IBRD (\$)	Job creation	Sales	Exports		
Doo San Glass Ind. Co.	Nonmetallic	E	1,330	1,980	4,722	-	1,550	1,550	1,550	186	51,785	2,610	25.4	-
Korea Iron & Steel Works Ltd.	Basic metals	N	3,228	4,887	11,543	-	3,860	3,860	3,860	274	11,468	6,456	42.1	-
Hanil Express Co., Ltd.	Inland transport	N	178	3,000	3,264	-	3,000	3,000	3,000	13	5,726	-	258.8	27.1 (32.9)
Kuk Bo Transportation Co.	Inland transport	E	507	1,496	2,541	-	1,496	1,496	1,496	114	4,963	-	22.3	-
Kelim Ceramic Co., Ltd.	Nonmetallic	E	1,515	819	3,942	-	819	819	819	436	4,713	12	9.0	-
Korea Development Leasing Corp.	Other service	E	1,929	10,000	13,997	1,000	10,000	12,062	10,000	-	13,977	-	-	-
Chin Yang fin Chemical Co. Ltd.	Chemical	N	6,417	9,840	23,071	500	7,500	8,531	7,500	119	20,427	-	193.9	19.2 (17.4)
Cho Heung Textile Co., Ltd.	Textile	E	91	368	586	-	368	368	368	10	425	83	55.6	-
Global Shipping Co., Ltd.	Marine transport	E	214	4,050	4,492	-	4,000	4,000	4,000	28	2,313	2,311	160.4	28.6 (30.7)
Dong Hai Steel Co., Ltd.	Metal products	N	1,364	3,950	6,762	200	3,720	4,132	3,648	215	15,095	1,520	31.5	-
Yusung Woolen Textile Co., Ltd.	Textile	E	298	792	1,407	-	792	792	792	49	2,225	1,095	28.7	-
Nam Yang Dairy Products Co., Ltd.	Food & beverage	N	2,152	3,800	8,237	-	3,800	3,800	1,988	210	51,115	-	39.2	19.9 (25.9)
Korea Synthetic Rubber Ind. Co.	Rubber	E	12,770	30,669	56,998	-	7,600	7,600	505	170	25,442	9,748	335.3	23.3 (31.7)
Han Kuk Glass Ind. Co., Ltd.	Nonmetallic	E	1,243	2,300	2,563	-	2,300	2,300	2,300	150	12,254	1,629	17.1	26.6 (48.6)
Il Shin Industrial Co., Ltd.	Nonmetallic	E	1,673	1,260	4,709	-	2,000	2,000	2,000	8	3,814	2,311	586.6	20.0 (29.6)
Yang Yang Transportation Co., Ltd.	Inland transport	E	437	500	1,402	-	395	395	395	38	641	-	36.9	-
Dongsun Co., Ltd.	Textile	E	44	500	1,402	-	500	500	500	8	678	-	74.0	-
Hee Sung Paper Mfg. Co., Ltd.	Paper	E	1,376	695	3,532	-	1,653	1,653	1,653	65	11,289	-	54.3	-
Eagon Industrial Co., Ltd.	Wood products	E	2,387	3,110	8,032	-	1,004	1,004	1,004	650	19,000	6,255	12.4	-
Dae Yang Co., Ltd.	Textile	N	1,440	2,250	5,220	-	2,250	2,250	1,250	94	6,170	6,170	55.5	26.9 (46.8)
Cheil Synthetic Textile Co., Ltd.	Textile	E	1,260	2,500	5,098	-	2,500	2,500	2,500	25	16,202	-	203.9	37.7 (20.0)
Seshin Commercial Co., Ltd.	Metal products	E	366	995	1,750	-	995	995	995	55	2,151	981	31.8	-
Sam Hwa Steel & Wire Rope Co.	Metal products	E	1,054	998	3,171	50	992	1,095	992	56	3,326	2,487	56.6	-
Sam Whan Camus, Ltd.	Construction	N	2,837	3,897	9,747	300	3,210	3,829	3,199	502	13,201	-	19.4	-
Leeku Industry Co., Ltd.	Metal products	E	1,790	1,350	5,040	150	1,500	1,809	1,730	24	9,320	-	210.0	17.1 (42.7)
Dae Yang Co., Ltd.	Leather products	E	306	455	1,087	80	455	620	455	120	2,738	1,642	9.1	-
Daihan City Gas Co.	City gas	N	7,196	4,873	19,711	-	4,500	4,500	4,500	200	4,682	-	98.6	16.0 (11.0)
Nam Hae Ceramics Co., Ltd.	Nonmetallic	E	523	637	1,715	-	666	666	666	28	986	212	61.3	-
Kyong Bo Industrial Co., Ltd.	Textile	E	569	900	2,073	150	871	1,180	871	16	8,650	3,624	129.6	-
Korea Kwang Yang Sa Co., Ltd.	Printing	E	100	320	526	-	310	310	310	11	309	-	47.8	-
Yong Chang Ind'l Co.	Metal products	N	395	250	1,064	-	232	232	232	116	3,115	-	9.2	-
Dong Bang Oil and Flour	Food and beverage	E	4,139	3,450	11,984	-	3,450	3,450	3,450	158	88,239	-	75.8	35.0 (25.9)
Dong Yang Steel Co., Ltd.	Metal products	E	2,106	1,700	6,042	-	1,488	1,488	1,488	266	9,633	-	22.7	16.4 (17.9)
Hanil Cement Manufacturing Co.	Nonmetal	E	1,222	1,680	4,199	-	2,045	2,045	2,045	68	6,464	564	61.8	31.2 (49.9)
Dae Won Sa Co., Ltd.	Marine transport	E	287	5,460	6,052	-	5,005	5,000	5,000	28	39,045	-	216.1	22.7 (26.5)
Jin Woo Machinery Co., Ltd. /a	Machinery	E	178	380	748	60	380	503	335	37	853	-	20.2	-
Sam Hwa Crown Cork Co., Ltd. /a	Metal products	E	1,896	2,000	5,908	100	2,000	2,206	969	124	13,361	-	47.6	29.4 (36.5)
Kwang Ju Dairy Co., Ltd.	Food & beverage	E	251	800	1,318	-	800	800	800	69	11,318	-	19.1	-
Hyop Sung Textile Co., Ltd.	Textile	N	810	2,275	3,945	-	1,240	1,240	1,240	133	2,194	-	29.7	23.3 (33.4)
Sam Bo Synthetic Textile Co., Ltd.	Textile	N	850	2,250	4,003	-	1,230	1,230	1,230	133	2,194	266	30.1	22.0 (32.6)
Dong Yang Industries Co., Ltd.	Nonmetallic	N	388	653	1,453	-	550	550	550	70	1,373	693	20.8	-
Sunglee Electronics Co., Ltd.	Electronics	MB & R	7	50	63	-	48	48	48	64	4,326	-	1.0	-
Dongjin Chemical Ind'l Co.	Chemical	E	62	80	207	50	79	79	79	40	934	-	5.2	-

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Name of Company	Type of industry	Purpose of Loan	Project cost			KLB financing			IBRD	Incremental			Cost per job	FRR/(ERR)
			Local	Foreign	Total	Local	Foreign	Total		Job creation	Sales (\$)	Exports (\$)		
			(₩)	(\$)	(\$)	(₩ mln)	(\$)	(\$)	(\$)				(\$)	
Kumho Metal Ind'l Co., Ltd.	Metal products	N	453	315	1,250	-	330	433	330	35	7,175	-	35.7	-
Pohang Furnace Construction Co.	Metal products	E	20	100	140	-	99	99	99	12	3,753	-	11.7	-
Lotte Moolsan Co.	Metal products	E	1,506	4,300	7,406	-	4,300	4,300	300	51	14,629	1,252	145.2	-
Chin Yang Machinery Co., Ltd.	Mach. & Equip.	E	200	300	712	-	512	512	300	165	4,064	-	4.3	-
Kia Motorcycle Co., Ltd.	Mach. & Equip.	E	2,365	4,800	9,676	-	3,700	3,700	300	210	18,109	1,933	46.1	26.2 (22.1)
Yulon Plastic Co., Ltd.	Chemical	E	277	250	821	-	250	250	250	23	2,870	-	35.7	-
Cheun Yang Transportation Co.	Transport	E	102	-	210	-	100	100	100	10	505	-	21.0	-
Sun Hak Aluminium Co., Ltd.	Elec. equipment	E	726	1,551	3,047	400	977	977	977	260	16,928	797	11.7	-
Tae Joo Industrial Co., Ltd.	Metal products	N	2,539	3,500	8,736	200	1,800	2,625	699	260	3,881	891	38.0	-
Sam Woo Special Metals Co., Ltd.	Metal products	N	300	470	1,089	-	470	882	470	31	462	-	35.1	-
Young Dong Chemical Co., Ltd.	Chemical	E	426	850	1,729	-	850	850	850	4	7,526	-	432.3	-
Chun Kyung Container Terminal	Inland transport	E	129	500	1,766	-	457	457	457	33	4,590	-	23.2	-
Sam Da Machine Industrial Comp.	Metal products	N	316	200	852	-	189	189	189	37	1,307	-	23.0	-
Dae Kwang Textile Company	Textile	E	136	412	692	-	397	397	397	12	918	918	57.7	-
Korea Iron & Steel Co., Ltd.	Basic metals	E	2,598	1,750	7,108	-	2,850	2,850	1,100	52	12,928	-	136.7	36.7 (39.5)
Doo San Farm Co., Ltd.	Agriculture	N	8	60	75	-	58	58	58	7	7,895	-	10.7	-
Century Electric Co., Ltd.	Machinery	N	584	180	1,384	-	178	178	178	51	1,480	434	27.1	-
Union Steel Mfg. Co., Ltd.	Basic metals	E	1,459	1,500	4,507	100	2,100	2,306	589	-	63,691	27,678	-	-
Korea Hi-Dap Company, Ltd.	Wood	E	266	240	788	-	240	240	135	70	2,577	254	11.3	-
Chunkang Farm	Agriculture	N	80	85	101	-	85	85	85	11	489	-	9.2	-
Dae Sung Mining Development Co.	Nonmetallic	E	100	460	666	-	460	460	453	10	1,097	-	66.6	-
Seong Hwa Velvet Co., Ltd.	Textile	E	120	263	511	-	220	220	220	16	2,565	670	31.9	-
Bosung Special Fiber Co.	Textile	E	585	1,000	2,206	-	220	220	220	28	7,703	-	78.8	-
Cheil Organic Chemical Co.	Electronics	E	170	1,384	1,734	200	350	350	350	63	3,373	-	27.5	-
Dong Kuk Steel Mill Co., Ltd.	Basic metals	E	4,178	7,000	15,614	-	8,500	8,500	1,500	85	62,754	15,688	184.0	35.9 (41.4)
Kum Kang Electronics Corp.	Electronics	E	45	225	318	-	189	189	189	10	959	805	31.8	-
Ssangyong Cement Ind'l Co., Ltd.	Nonmetallic	E	424	1,150	2,025	-	1,470	1,470	320	56	97,004	31,276	36.2	-
U-In Chemical Co., Ltd.	Chemical	N	288	370	964	-	370	370	370	15	8,140	-	64.3	-
Kelim Ceramic Co., Ltd.	Nonmetallic	E	29	300	350	-	298	298	298	390	3,171	39	0.9	-
Sam Yang Can Co.	Metal products	E	1,154	1,970	3,959	-	1,500	1,500	350	35	7,705	-	113.1	-
Korea K-Span Co.	Metal products	N	115	140	340	-	139	139	139	24	1,670	-	14.2	-
Hanil Can Co.	Metal products	N	2,091	2,629	6,940	-	329	329	329	70	19,583	2,336	99.1	-
Poong Lim Industrial Co., Ltd.	Construction	E	85	460	606	-	460	460	460	14	12,342	10,251	43.3	-
Samyang Industrial Co.	Chemical	E	248	245	665	-	245	245	245	16	2,004	-	41.6	-
Hankook Tire Mfg. Co., Ltd.	Rubber	E	5,863	6,100	15,872	-	5,000	5,000	5,000	48	22,633	18,917	330.7	24.5 (28.9)
Kum Ho Chemical Co., Ltd.	Chemical	E	1,265	750	2,858	-	850	850	250	-	14,648	-	-	-
Hanjin Transportation Co.	Inland transport	E	1,562	1,740	4,343	-	1,250	1,250	1,000	15	13,753	-	289.5	-
Dong Yang Elevator Co.	Mach. & Elec.	E	246	350	760	-	373	373	373	51	1,103	-	14.9	-
Chon Bang Co., Ltd.	Textile	E	308	260	761	-	260	260	260	12	48,598	29,373	63.4	-
Sang Ji Food Co.	Food	E	90	74	259	-	74	74	74	20	1,841	-	13.0	-
Dong Ill Ferro-alloy Co.	Metal products	N	419	-	863	100	350	557	350	11	6,329	984	78.5	-
Sam Do Industrial Co.	Metal products	E	540	-	1,741	-	320	320	320	31	1,261	-	17.4	-
Korea Zinc Company	Nonferrous metal	E&F	596	872	1,741	-	500	500	500	22	7,678	1,190	70.1	-
Hankuk Glass Industry Co., Ltd.	Glass products	E	85	371	496	-	371	371	371	-	19,409	633	-	-
Sam Yang Co., Ltd.	Textile	E	9,610	12,436	26,424	-	10,000	10,000	10,000	203	15,512	10,993	1,149.0	18.5 (18.0)
Heung-A Industrial Co., Ltd.	Rubber	R	108	500	666	-	500	500	500	-	2,296	2,067	-	-
Dalhan Color Co., Ltd.	Chemical	R	32	210	258	-	210	210	210	-	1,886	1,005	-	-
Busan Color Co., Ltd.	Basic metals	E	74	130	238	-	130	130	130	-	1,549	539	-	-
Sung Chang Textile Co., Ltd.	Textile	E	71	160	269	-	160	160	160	10	632	442	27.0	-
Total			141,167	187,129	411,862	3,640	148,193	155,280	115,116	7,769	1,073,109	212,043	53.0	

ADPID  
January 3, 1983

## KOREA

## INDUSTRIAL FINANCE PROJECT

## Korea Long-Term Credit Bank

Subprojects Approved for Financing Under Loan 1932-KO as of December 31, 1982  
(\$'000 and W million)

Name of Company	Type of Industry	Purpose of loan	Project cost			KLB financing				Incremental job creation (number)	Incremental sales (\$)	Incremental exports (\$)	Cost per job (\$)	FRR (%)	ERR (%)
			Local (W)	Foreign (\$)	Total (ES)	Local (W)	Foreign (\$)	Total (ES)	IBRD (\$)						
Busan City Gas Co., Ltd.	City gas	N	18,850	5,512	21,282	1,024	5,512	7,000	5,000	147	15,126	-	144.8	12.9	10.5
Dae Sung Mining Dev. Co., Ltd.	Mining	E	78	450	566	-	450	450	450	6	4,915	-	94.3	-	-
Sam Sung Electronic Parts Co., Ltd.	Electronic parts	E	1,207	2,000	3,802	-	2,000	2,000	1,000	177	19,594	10,849	21.5	23.3	43.1
Sam Sung Corning Co., Ltd.	Electronic parts	N	268	650	1,048	-	650	650	650	21	1,660	1,379	49.9	-	-
Life Construction Co., Ltd.	Construction	E	85	500	625	-	500	500	500	12	15,570	-	52.1	-	-
Kwang Jin Electronic Ind. Co., Ltd.	Electronic products	E	101	450	598	-	450	450	450	-	2,987	-	-	-	-
Sam Sung Electronics Co., Ltd.	Electronic products	E	571	3,000	3,335	-	3,000	3,000	2,000	25	12,082	7,732	153.4	24.5	37.0
Pusan Steel Pipe Ind. Co., Ltd.	Basic metal	E	114	480	647	-	480	480	480	-	31,603	27,589	-	-	-
Hankuk Pair Glass Ind. Co., Ltd.	Glass products	E	67	345	443	-	345	345	345	15	1,209	-	29.5	-	-
Lucky, Ltd.	Chemical products	E&N	4,272	4,450	11,313	-	4,250	4,250	2,600	80	12,317	8,152	141.4	32.6	20.6
Joongang Development Co., Ltd.	Construction	E	42	190	251	-	190	190	190	18	3,343	-	13.9	-	-
Heung-A Industrial Co., Ltd.	Rubber	E	165	730	970	-	730	730	730	-	4,933	4,256	-	-	-
Sam Whan Corporation	Construction	E	1,779	2,500	5,036	-	2,500	2,500	1,500	807	26,218	-	6.3	-	-
Anam Industrial Co., Ltd.	Electronic products	S&E	695	5,300	6,310	-	5,300	5,300	2,800	255	8,901	4,272	24.7	26.9	48.6
Ssangyong Cement Ind. Co., Ltd.	Non-metal	S&E	5,831	2,500	10,951	-	3,100	3,100	1,500	144	46,033	-	76.0	-	-
Hankuk Diesel Kiki Co., Ltd.	Motor vehicle parts	E	539	960	1,740	-	900	960	500	32	5,204	-	54.4	-	-
Korea Synthetic Rubber Industrial Co., Ltd.	Chemical	N	4,631	4,683	11,395	-	4,683	4,683	2,300	24	9,500	5,788	474.8	18.7	17.4
Pusan Steel Pipe Ind. Co., Ltd.	Basic metal	S&E	9,555	4,600	18,498	-	4,600	4,600	600	42	82,959	58,661	440.4	-	-
Life Construction Co., Ltd.	Construction	E	134	800	993	-	800	800	800	18	8,576	-	55.2	-	-
Dong Yang Elanco Co., Ltd.	Chemical	N	2,089	730	3,723	500	500	1,216	500	41	10,466	-	90.8	-	-
Poong Lim Industrial	Construction	E	117	650	817	-	650	650	650	16	3,506	-	51.1	-	-
Korea Zinc Company, Ltd.	Non-ferrous metal	S	236	700	1,018	-	635	635	635	25	15,995	5,390	40.7	-	-
Hanil Cement Mfg. Co., Ltd.	Non-metal	S&N	375	1,600	2,104	-	1,600	1,600	800	-	39,056	1,115	-	-	-
Hankuk Glass Industry Co., Ltd.	Glass products	N	1,795	2,550	4,943	350	2,500	2,967	1,700	11	8,000	-	449.4	23.4	27.4
Life Construction Co., Ltd.	Construction	E	275	1,350	1,717	-	1,350	1,350	650	23	26,916	19,452	74.7	-	-
Ssangyong Cement Industrial Co., Ltd.	Non-metal	E	9,966	-	13,288	3,000	2,700	6,700	1,500	296	53,516	-	44.9	22.5	33.5
Sam Yang Co., Ltd.	Textile	E&S	4,034	7,700	13,836	-	7,700	7,700	3,000	42	5,126	4,660	329.0	22.7	-
Doo San Gran Co., Ltd.	Foodstuffs	N	13,432	4,950	24,588	2,000	2,950	5,874	2,950	243	50,247	-	101.0	25.6	22.4
Kukje Shipping Co., Ltd.	Transportation	E	784	8,700	9,864	-	8,700	8,700	6,100	29	3,488	3,488	340.0	19.3	19.5
Sam Young Wool Textile Ind. Co., Ltd.	Textile	S	830	1,010	2,203	300	1,010	1,456	720	-	-	-	-	-	-
Jinyang Shipping Co., Ltd.	Transportation	E	1,146	11,000	12,702	-	10,000	10,000	5,000	34	4,774	4,296	373.6	24.0	26.3
Dong Won Industrial Co., Ltd.	Fishery	E	499	3,523	4,249	-	3,500	3,500	2,500	26	3,470	3,470	163.4	37.2	42.2
Heung-A Shipping Co., Ltd.	Transportation	E	1,673	14,000	16,431	-	14,000	14,000	4,900	58	7,869	7,869	283.3	23.9	24.8
Ho Nam Flour Mills Co., Ltd.	Foodstuffs	S	127	550	735	-	550	550	550	-	-	-	-	-	-
Dong Sun Co., Ltd.	Textile	E	222	500	822	-	500	500	350	10	1,747	1,747	82.2	29.9	-
Shu Kwang Industrial Co., Ltd.	Textile	E	243	300	653	-	300	300	200	-	-	-	-	-	-
Korea Vilen Co., Ltd.	Textile	E	372	420	960	-	420	420	300	20	3,123	2,106	48.0	21.3	-
Pang Rim Spinning Co., Ltd.	Textile	E	866	1,706	2,964	-	1,700	1,700	1,000	-	-	-	-	-	-
Sam Yang Co., Ltd.	Textile	E	9,610	12,436	26,424	-	10,000	10,000	3,200	203	15,512	10,993	130.2	18.5	18.0
Hyundai Wood Industries Co., Ltd.	Wood products	E	3,104	960	5,470	300	960	1,396	480	410	10,993	10,993	13.3	17.8	17.3
Dong Yang Textile Mfg. Co., Ltd.	Textile	E	114	338	501	-	330	330	330	10	1,442	1,298	50.1	-	-
Nam Sun Textile Co., Ltd.	Textile	N	15,193	18,946	40,165	1,000	6,100	7,497	2,100	744	31,952	29,047	54.0	-	-
Sambu Shipping Co., Ltd.	Transportation	E	137	500	704	-	500	500	500	17	577	-	54.0	-	-
Sung Chang Textile Co., Ltd.	Textile	E	340	960	1,442	200	860	1,002	660	27	2,565	2,262	52.0	32.6	39.1
Samik Shipping Co., Ltd.	Transportation	E	54	120	200	-	120	120	120	3	2,179	-	67.0	-	-
Sung Chang Textile Co., Ltd.	Textile	E	228	450	744	-	450	450	450	11	3,594	3,466	70.0	-	-
Young-Do Velvet Dyeing CO.	Textile	E	71	280	385	-	280	280	280	2	209	267	192.5	-	-
Hyupsung Nongsan Co.	Agriculture	N	332	273	783	-	240	240	240	11	960	-	17.2	-	-
Dr. CHUNG's Foods Co., Ltd.	Foodstuffs	E	41	250	305	-	250	250	250	-	-	-	-	-	-
<b>Total</b>			<b>117,289</b>	<b>137,502</b>	<b>295,074</b>	<b>8,674</b>	<b>121,795</b>	<b>133,961</b>	<b>67,010</b>	<b>4,131</b>	<b>619,952</b>	<b>240,576</b>	<b>71.4</b>		



KOREA  
INDUSTRIAL FINANCE PROJECT  
Korea Long-Term Credit Bank  
Audited Balance Sheet, 1978-82  
(W million)

	1978	1979	1980	1981	1982
<u>Assets</u>					
<u>Current Assets</u>					
Cash in banks and demand deposits	207	53	7,656	6,311	12,836
Time deposits maturing within					
one year	2,318	588	20	-	-
Restricted cash /a	1,560	3,180	6,440	639	2,130
Marketable securities at cost	5,911	7,478	31,893	42,528	84,137
Short-term domestic currency loans	-	-	509	6,247	9,814
Loans due within one year	15,114	22,122	55,809	112,760	130,339
Less: Allowances for losses	-	-	(660)	(1,300)	(1,580)
Accrued interest	5,609	6,214	9,896	10,791	17,458
Other current assets	35	20	19	30	6,240/b
Customers' acceptance liability	-	-	1,175	2,340	6,779
<u>Total Current Assets</u>	<u>30,754</u>	<u>39,655</u>	<u>112,757</u>	<u>180,346</u>	<u>268,153</u>
<u>Long-Term Assets</u>					
Domestic currency loans	4,764	6,812	70,473	166,880	221,480
Foreign currency loans					
IBRD loans	77,981	106,262	155,015	158,584	165,137
ADB loans	36,376	32,766	43,562	59,495	62,688
AID loans	310	183	101	-	-
IFC loans	8,175	6,547	6,938	5,211	3,339
DEG loans	1,387	1,355	1,379	1,046	823
APCO loans	9,700	9,700	11,303	7,870	4,003
DEUTB loans	3,880	14,550	19,359	18,384	17,034
IBJ loans	-	5,335	33,115	34,939	31,923
KAF loans	-	-	8,365	50,340	68,270
ADB co-financing	-	-	-	-	40,014
General term loans	-	-	-	-	1,350
Special term loans	-	-	-	-	6,148
Revolving funds	-	986	3,886	5,617	8,357
Subtotal	137,809	177,684	353,496	341,486	409,096
Debentures	488	765	11,762	30,650	27,328
Equity investments	6,176	7,657	4,701	7,273	7,554
<u>Total Long-Term Portfolio</u>	<u>149,237</u>	<u>192,918</u>	<u>369,959</u>	<u>546,289</u>	<u>665,458</u>
Less: Allowances for losses	(2,160)	(2,775)	(3,100)	(4,270)	(5,280)
Current portion	(15,114)	(22,122)	(55,809)	(112,760)	(130,339)
<u>Net Total Long-Term Portfolio</u>	<u>131,963</u>	<u>168,021</u>	<u>311,050</u>	<u>429,259</u>	<u>529,839</u>
Property and equipment	1,922	1,945	2,177	2,373	3,409
Less: Accumulated depreciation	(305)	(458)	(618)	(775)	(958)
Other fixed assets	32	42	307	727	2,680
<u>Total Long-Term Assets</u>	<u>133,611</u>	<u>169,550</u>	<u>312,916</u>	<u>431,584</u>	<u>534,970</u>
<u>Deferred Assets</u>					
Deferred charges	-	-	315	447	694
<u>Total Assets</u>	<u>164,365</u>	<u>209,205</u>	<u>425,988</u>	<u>612,377</u>	<u>803,817</u>

/a Restricted cash represents foreign currencies KLB has borrowed and received and is temporarily holding in banks on behalf of several borrowers.

/b Includes call loan amount of W 4,028 million.

	1978	1979	1980	1981	1982
<u>Liabilities and Equity</u>					
<u>Current Liabilities</u>					
Deposits	-	-	8,999	14,124	17,007
Accrued interest and commitment fees	3,851	4,178	6,722	12,824	11,410
Deferred income	269	337	3,470	8,523	10,026
Income tax payable	897	1,038	3,123	4,069	726
Borrower's fund held on deposits /a	1,560	3,180	5,716	159	178
Current maturity of long-term debt	13,017	16,472	36,258	67,977	157,681
Other current liabilities	605	460	867	8,540	6,779
Acceptances outstanding	-	-	1,175	2,340	12,656
<u>Total Current Liabilities</u>	<u>20,199</u>	<u>25,665</u>	<u>66,330</u>	<u>118,556</u>	<u>216,463</u>
Employee's severance liabilities	365	521	695	1,088	1,252
<u>Long-Term Liabilities</u>					
Domestic currency borrowings (Government loan)	1,924	1,856	1,789	1,721	1,654
Foreign currency borrowings					
IBRD loans	77,291	106,064	155,087	158,728	165,099
ADB loans	35,376	33,589	46,193	63,911	69,704
AID loans	789	676	760	622	456
Caterpillar loans	5	-	-	-	-
IFC loans	8,174	6,547	6,938	5,211	3,339
DEG loans	1,387	1,355	1,379	1,046	823
APCO loans	9,700	9,700	11,774	7,808	5,005
DEUTB loans	3,880	14,550	16,860	19,676	18,017
IBJ loans	-	5,335	33,115	35,135	32,530
KAF loans	-	-	8,909	49,035	72,576
ADB co-financing loans	-	-	-	-	37,144
<u>Subtotal</u>	<u>137,602</u>	<u>177,816</u>	<u>284,024</u>	<u>341,172</u>	<u>404,693</u>
Long-term bank debenture	-	-	64,600	178,904	282,561
Less: Unamortized discount on long-term bank debenture	-	-	(19,872)	(39,042)	(39,171)
Accrued interest due after one year	-	-	307	7,215	21,303
<u>Total Long-Term Liabilities</u>	<u>139,526</u>	<u>179,672</u>	<u>330,848</u>	<u>489,970</u>	<u>671,040</u>
Less: Current maturity on long-term debt	(13,017)	(16,472)	(36,258)	(67,977)	(157,681)
<u>Net Total Long-Term Liabilities</u>	<u>126,509</u>	<u>163,200</u>	<u>294,590</u>	<u>421,993</u>	<u>513,359</u>
<u>Stockholders' Equity</u>					
Share capital	10,000	10,000	50,000	50,000	50,000
Legal reserve	2,500	3,300	300	1,870	3,840
Voluntary reserve	2,300	2,500	1,200	-	-
Business rationalization reserve	-	200	900	5,050	8,620
Unappropriated	2,492	3,319	11,973	13,820	10,283
<u>Total Stockholders' Equity</u>	<u>17,292</u>	<u>19,819</u>	<u>64,373</u>	<u>70,740</u>	<u>72,743</u>
<u>Total Liabilities and Equity</u>	<u>164,365</u>	<u>209,205</u>	<u>425,988</u>	<u>612,377</u>	<u>803,817</u>
<u>Contingent liabilities</u>					
Payable guarantee	403	200	1,175	2,340	6,779
L/C issued and outstanding	13,251	15,836	13,461	13,466	12,075
<u>Subtotal</u>	<u>13,654</u>	<u>16,036</u>	<u>14,636</u>	<u>15,806</u>	<u>18,854</u>
Current ratio	1.5	1.5	1.7	1.5	1.2
Long-term debt/equity ratio	8.09	9.08	5.16	6.96	8.98
Reserves and provisions as % of portfolio	6.3	6.5	4.9	4.8	4.5

/a Borrower's funds held on deposits represent foreign currencies KLB has borrowed and are temporarily holding in banks on behalf of several borrowers.

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INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Audited Income Statements, 1978-1982  
(in ₩ million)

	1978	1979	1980	1981	1982
<u>Income</u>					
<u>Interest Income from</u>					
Domestic currency loans	672	1,132	8,580	27,466	42,622
Foreign currency loans	13,117	17,353	31,992	38,802	47,181
Subtotal	<u>13,789</u>	<u>18,485</u>	<u>40,572</u>	<u>65,268</u>	<u>89,803</u>
Commitment income	571	690	754	561	1,728
Debenture income	151	159	1,052	4,460	6,762
Dividend income	703	730	1,361	1,460	1,885
Interest on securities, principally public bonds	751	1,738	4,886	7,427	10,478
Interest on deposits & other income	574	513	699	5,345	2,719
Disposal of investments	-	-	1,163	-	-
<u>Total Income</u>	<u>16,539</u>	<u>22,315</u>	<u>50,487</u>	<u>84,521</u>	<u>113,375</u>
<u>Expenses</u>					
<u>Interest and Charges on Borrowings</u>					
Domestic currency borrowings	79	76	100	105	123
Foreign currency borrowings	10,358	14,028	22,485	33,613	41,043
Commitment charges	359	609	460	544	1,207
Long-term bank debentures	-	-	3,746	23,331	48,644
Deposits and others	-	-	245	618	1,461
Subtotal	<u>10,796</u>	<u>14,713</u>	<u>30,736</u>	<u>58,211</u>	<u>92,478</u>
Salaries and other personnel expenses	755	975	1,653	2,376	2,669
Administrative and general expenses	494	590	977	1,653	1,642
Depreciation	180	159	154	178	207
Provision for losses	698	615	985	1,810	1,298
Write-offs	-	-	-	-	-
Other expenses	14	69	349	613	2,950
<u>Total Expenses</u>	<u>12,937</u>	<u>17,121</u>	<u>34,854</u>	<u>64,841</u>	<u>101,243</u>
Net earnings before tax	3,602	5,194	15,633	19,680	12,142
Provisions for income tax	1,196	1,467	3,780	5,870	2,070
Net income	2,406	3,727	11,853	13,810	10,062
Retained earnings brought forward	86	92	119	11	221
<u>Total</u>	<u>2,492</u>	<u>3,819</u>	<u>11,972</u>	<u>13,821</u>	<u>10,283</u>
<u>Appropriation</u>					
Cash dividend	1,200	2,300	7,449	8,250	4,000
Stock dividend	-	-	-	-	-
Legal reserve	800	300	1,570	1,970	1,300
Business rationalization reserve	200	700	4,150	3,570	2,100
Voluntary reserve	200	400	(1,200)	-	2,400
Unappropriated	92	119	3	31	483
<u>Total</u>	<u>2,492</u>	<u>3,819</u>	<u>11,972</u>	<u>13,821</u>	<u>10,283</u>

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## INDUSTRIAL FINANCE PROJECT

## Korea Long-Term Credit Bank

Summarized Cash Flow Statements  
(in ₩ million)

	1978	1979	1980	1981	1982
<u>Sources</u>					
<u>Operations</u>					
Internal cash generation	3,397	4,666	15,122	25,564	25,497
Increase in paid-in share capital	5,000	-	35,000	-	-
Drawdown on foreign currency borrowings	55,699	55,398	63,247	88,362	102,067
Issuance of KLB debenture	-	-	64,600	120,000	100,944
Subtotal	<u>64,096</u>	<u>60,064</u>	<u>177,969</u>	<u>233,926</u>	<u>228,508</u>
<u>Collections</u>					
Domestic currency loans	967	1,444	4,161	41,611	217,755
Debentures	415	183	155	3,002	10,672
Disposition of equity investments	76	69	4,071	-	754
Foreign currency loans	9,016	11,371	24,747	37,446	49,423
Subtotal	<u>10,474</u>	<u>13,067</u>	<u>33,134</u>	<u>82,059</u>	<u>278,604</u>
<u>Others</u>					
Increase in collections due to foreign exchange rate fluctuations	1,945	6,046	65,378	3,556	9,650
Disposition of property and equipment	5	12	-	63	36
Decrease in other fixed assets	9	-	-	15	275
Increase in current liabilities	3,270	2,011	20,880	55,225	19,564
Subtotal	<u>5,229</u>	<u>8,069</u>	<u>86,258</u>	<u>58,859</u>	<u>29,525</u>
<u>Total Sources</u>	<u>79,799</u>	<u>81,200</u>	<u>297,361</u>	<u>374,844</u>	<u>536,637</u>
<u>Uses</u>					
<u>Disbursements</u>					
Domestic currency loans	3,172	3,492	67,823	138,018	275,921
Debentures	-	460	11,152	21,890	7,350
Equity investments	2,036	1,550	1,115	2,572	1,035
Foreign currency loans	42,478	56,231	64,714	90,751	107,336
Subtotal	<u>47,686</u>	<u>61,733</u>	<u>144,804</u>	<u>253,231</u>	<u>391,642</u>
<u>Repayment</u>					
Domestic currency borrowing	68	68	68	68	68
Foreign currency borrowing	10,905	15,184	22,417	34,769	48,196
KLB debenture	-	-	-	-	27,141
Subtotal	<u>10,973</u>	<u>15,252</u>	<u>22,485</u>	<u>34,837</u>	<u>75,405</u>
<u>Others</u>					
Increase in disbursements due to foreign exchange rate fluctuations	13,303	1,061	65,371	3,426	9,698
Acquisition of property and equipment	60	35	233	258	1,072
Increase in other fixed assets	5	10	265	435	2,228
Increase in current assets	6,733	1,893	39,414	74,754	47,296
Increase in deferred assets	-	-	22,438	378	738
Decrease in depreciation	4	7	-	21	24
Employees' severance pay	35	9	51	55	284
Payment of dividend	1,000	1,200	2,300	7,449	8,250
Subtotal	<u>21,140</u>	<u>4,215</u>	<u>130,072</u>	<u>86,776</u>	<u>69,590</u>
<u>Total Uses</u>	<u>79,799</u>	<u>81,200</u>	<u>297,361</u>	<u>374,844</u>	<u>536,637</u>

KOREAINDUSTRIAL FINANCE PROJECTKorea Long-Term Credit BankKey Indicators, 1978-82  
(₩ million)

	1978	1979	1980	1981	1982
<u>Total Assets</u>	164,365	209,205	425,988	612,377	803,817
Of which:					
Loan portfolio /a	143,061	185,261	365,258	533,398	657,904
Equity investments	6,176	7,657	4,701	7,273	7,554
Long-term liabilities /b	139,526	179,672	330,848	489,970	671,040
Of which:					
In foreign currency	137,602	177,816	284,024	341,172	404,693
In domestic currency /c	1,924	1,856	1,789	1,721	1,654
Debentures /c	-	-	45,035	147,077	264,693
Contingent liabilities	13,654	16,036	14,636	15,807	18,854
Equity	17,292	19,819	64,373	70,740	72,743
<u>Financial Performance</u>					
<u>Percentage of Average Total Assets</u>					
1. Gross income	12.1	11.9	15.4	15.9	16.0
2. Financial expenses	7.9	7.9	9.4	11.0	13.1
3. Gross spread (1-2)	4.2	4.0	6.0	4.9	2.9
4. Administrative expenses	1.1	1.0	1.0	0.9	1.0
5. Provision for doubtful loans	0.5	0.3	0.3	0.3	0.2
6. Income tax	0.9	0.8	1.2	1.1	0.3
7. Profit before provision for taxes	2.2	2.2	3.8	3.7	1.7
8. Net profit	1.7	1.9	3.5	2.6	1.4
<u>Net Profit as % of Average Net Worth</u>	17.1	20.1	28.2	20.4	14.0
<u>Other Ratios</u>					
Provisions as % of total portfolio	1.4	1.4	1.0	1.0	1.0
Provisions and reserves as % of total portfolio	6.3	6.5	4.9	4.8	4.5
Book value as % of par value	217.7	172.9	128.7	141.5	145.5
Debt service cover (times)	1.2	1.3	1.5	2.0	3.0
Interest cover ratio (times)	1.4	1.4	1.5	1.3	1.1
Earnings per shares (%)	40.1	37.3	39.5	27.6	20.1
Dividends (%)	20.0	23.0	20.0	16.5	8.0
Stock dividends per share (%)	-	-	50.0	-	-
Payout ratio	49.9	61.7	62.8	59.7	39.8
Spread on average domestic loan portfolio (%)	15.4	14.8	16.4	8.1	4.1
Spread on average foreign loan portfolio (%)	2.6	2.1	2.7	1.7	1.4
Spread on average total loan portfolio (%)	2.9	2.5	3.8	1.1	0.3
Spread on average total portfolio (%) /d	4.0	3.4	5.6	3.7	2.2
Long-term debt/equity ratio	8.1	9.1	5.5	7.0	9.0
Current ratio	1.5	1.5	1.7	1.5	1.2

/a Including short-term maturities and before provisions for doubtful accounts.

/b Including short-term maturities.

/c KLB debenture (face value) plus accrued interest on KLB debenture.

/d Income from total average portfolio minus financial expenses of total term debt and equity.

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INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Ratio Analysis

Ratios	1978	1979	1980	1981	1982
Income from loans as % of average loan portfolio	12.10	11.70	15.34	15.39	15.93
Cost of term debt as % of average term debt	9.20	9.20	12.00	14.30	15.66
Interest spread	2.90	2.50	3.34	1.09	0.27
Income from all portfolio as % of all average portfolio	12.20	11.70	15.50	15.77	16.17
Financial expenses as % of average term debt and equity	8.20	8.30	10.30	12.09	13.95
Earning spread	4.00	3.40	5.20	3.68	2.22
G&A expenses as % of average term debt and equity	1.10	1.00	0.90	0.85	0.69
Income from foreign currency loans as % of average foreign currency loan portfolio	11.90	11.40	14.20	12.61	12.73
Cost of foreign currency term debt as % of average foreign currency term debt	9.30	9.30	11.50	10.93	11.33
Interest spread on foreign currency loans	2.60	2.10	2.70	1.68	1.40
Income from all domestic currency portfolio as % of all average domestic currency portfolio	16.00	15.20	21.40	22.37	21.55
Domestic financial expenses as % of average domestic term debt and equity	0.60	0.40	5.90	18.22	17.44
Earning spread on domestic portfolio	15.40	14.80	15.50	8.08	4.11
Provision as % of loan and investment	1.40	1.40	1.00	1.00	1.00
Return on total assets (before income tax)	2.20	2.50	3.67	3.21	1.51
Earning as % of per share (average outstanding)	40.10	37.30	39.50	27.60	20.10
Cash dividend as % of per share	20.00	23.00	20.00	16.50	8.00
Stock dividend as % of per share	-	-	50.00	-	-
Payout ratio (cash dividend/net income)	49.90	61.70	62.80	59.74	39.75
Interest coverage ratio	1.35	1.36	1.51	1.34	1.13
Debt service coverage ratio	1.22	1.28	1.49	2.01	2.98
G&A expenses as % of average total assets	1.00	0.90	0.88	0.78	0.64
Return on total assets (after income tax)	1.50	1.80	2.78	2.26	1.25

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INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Status of Loan Portfolio as of December 31, 1982  
(W million)

	No. of loans	Principal outstanding		Arrears		
		Amount	%	Inter- est	Prin- cipal	Total
<u>Loans in Grace Period</u>						
Not in arrears	589	348,648	55.3	-	-	-
In arrears for less than 3 months	5	2,029	0.3	78	400	478
In arrears for more than 3 months	2	387	0.1	56	-	56
<u>Loans in Repayment Stage</u>						
Repaying regularly	625	277,392	44.0	-	-	-
In arrears for less than 3 months	7	1,232	0.2	92	142	234
In arrears for more than 3 months	1	889	0.1	159	444	603
<u>Loans Being Foreclosed</u>	-	-	-	-	-	-
<u>Total Portfolio</u>	<u>1,229</u>	<u>630,577</u>	<u>100.0</u>	<u>385</u>	<u>986</u>	<u>1,371</u>

II. Age Structure of Loans in Arrears as of September 30, 1982

	No. of loans	Outstanding balance affected	Arrears		
			Inter- est	Prin- cipal	Total
Less than 3 months	12	3,261	170	542	712
3 to 6 months	-	-	62	111	173
6 to 12 months	2	387	98	222	320
Over 12 months	1	889	55	111	166
Over 2 years	-	-	-	-	-

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Korea Long-Term Credit Bank

Analysis of Loans in Arrears, 1977-1982  
(in W million)

	1977	1978	1979	1980	1981	1982
<u>Loans in Arrears</u>						
Total number of loans in portfolio	370	454	581	801	1,097	1,229
Number of loans in arrears under 3 months	1	2	1	12	17	12
As % of total loan portfolio	0.3	0.4	0.2	1.5	1.5	1.0
Number of loans in arrears over 3 months <u>/a</u>	-	-	1	3	9	3
As % of total loan portfolio	-	-	0.2	0.4	0.8	0.2
Total number of loans in arrears	1	2	2	15	26	15
As % of total loan portfolio	0.3	0.4	0.4	1.9	2.4	1.2
<u>Principal Affected by Arrears</u>						
Total principal outstanding	96,481	113,061	185,261	365,258	539,016	630,577
Principal affected by arrears under 3 months	384	228	121	6,272	4,915	3,261
As % of principal outstanding	0.4	0.2	0.1	1.7	0.9	0.5
Principal affected by arrears for 3-12 months <u>/a</u>	-	-	428	409	2,081	387
As % of principal outstanding	-	-	0.2	0.1	0.4	0.1
Principal affected by arrears over 12 months <u>/a</u>	-	-	-	-	380	889
As % of principal outstanding	-	-	-	-	0.1	0.1
Total principal affected by arrears	384	228	549	6,681	7,376	4,537
As % of total principal outstanding	0.4	0.2	0.3	1.8	1.4	0.7
<u>Actual Amounts in Arrears /b</u>						
Arrears under 3 months	68	58	37	27	96	542
As % of principal outstanding	0.07	0.04	0.02	0.01	0.02	0.1
Arrears between 3-12 months <u>/a</u>	-	-	-	131	250	333
As % of principal outstanding	-	-	-	0.03	0.04	0.1
Arrears over 12 months <u>/a</u>	-	-	-	-	-	111
As % of principal outstanding	-	-	-	-	-	-
Total arrears	68	58	37	158	346	986
As % of total principal outstanding	0.09	0.04	0.02	0.04	0.06	0.1

/a Including accounts being foreclosed.

/b Arrears of principal only.

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ANNEX 3  
Table 16



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Korea Long-Term Credit Bank

Collection Performance, 1977 - 1982  
(in W million)

	Arrears at beginning of year (1)	Amounts fall- ing due during the year (2)	Total amount falling due (3)	Collections			Collection ratios (7)			Arrears at end of the year
				Against arrears (4)	Against new dues (5)	Total (6)	(4) as % of (1)	(5) as % of (2)	(6) as % of (3)	
<u>1977</u>										
Principal	37	8,688	8,725	37	8,620	8,657	100	99.2	99.2	68
Interest	23	5,892	5,915	23	5,871	5,893	100	99.6	99.6	22
<u>Total</u>	<u>60</u>	<u>14,580</u>	<u>14,640</u>	<u>60</u>	<u>14,491</u>	<u>14,550</u>	<u>100</u>	<u>99.4</u>	<u>99.4</u>	<u>90</u>
<u>1978</u>										
Principal	68	12,333	12,401	68	12,275	12,343	100	99.5	99.5	58
Interest	22	12,654	12,676	22	12,608	12,630	100	99.6	99.6	46
<u>Total</u>	<u>90</u>	<u>24,987</u>	<u>25,077</u>	<u>90</u>	<u>24,883</u>	<u>24,973</u>	<u>100</u>	<u>99.6</u>	<u>99.6</u>	<u>104</u>
<u>1979</u>										
Principal	58	19,023	19,081	58	18,986	19,044	100	99.8	99.8	37
Interest	46	18,327	18,373	46	18,298	18,344	100	99.8	99.8	29
<u>Total</u>	<u>104</u>	<u>37,350</u>	<u>37,454</u>	<u>104</u>	<u>37,284</u>	<u>37,388</u>	<u>100</u>	<u>99.8</u>	<u>99.8</u>	<u>66</u>
<u>1980</u>										
Principal	37	28,218	28,255	37	28,060	28,097	100	99.4	99.4	158
Interest	29	43,253	43,282	29	42,982	43,011	100	99.4	99.4	271
<u>Total</u>	<u>66</u>	<u>71,471</u>	<u>71,537</u>	<u>66</u>	<u>71,042</u>	<u>71,108</u>	<u>100</u>	<u>99.4</u>	<u>99.4</u>	<u>429</u>
<u>1981</u>										
Principal	158	82,247	82,405	158	81,901	82,059	100	99.6	99.6	346
Interest	271	76,627	76,898	254	76,147	76,147	93.7	99.4	99.4	497
<u>Total</u>	<u>429</u>	<u>158,874</u>	<u>159,303</u>	<u>412</u>	<u>158,048</u>	<u>158,460</u>	<u>96.0</u>	<u>99.5</u>	<u>99.5</u>	<u>843</u>
<u>1982</u>										
Principal	346	111,574	111,920	235	110,699	110,934	67.9	99.2	99.1	986
Interest	497	99,573	100,070	442	99,242	99,685	89.9	99.7	99.6	365
<u>Total</u>	<u>843</u>	<u>211,147</u>	<u>211,990</u>	<u>677</u>	<u>209,942</u>	<u>210,619</u>	<u>80.3</u>	<u>99.4</u>	<u>99.4</u>	<u>1,371</u>

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Korea Long-Term Credit Bank

Terms and Conditions of Long-Term Borrowings as of December 31, 1982

	Loan amount		Committed amount	Outstanding		Date of loan agreement	Repayment schedule	Borrowing rate (%)	Onlending rate (%)	Maximum duration for subborrower (years)	Limit on subloan	Free limit (\$ '000)	Procurement tied or not
	Original	Actual		Won in million	US\$ in thousand								
	-- (US\$ '000) --	-- (US\$ '000) --											
<b>Foreign Currency</b>													
USAID	5,000	2,892	2,892	-	-	01/31/68	1972-84	6.0	10	15	n.a.	100	tied
IBRD													
1st loan	5,000	4,950	4,950	-	-	01/31/68	1970-80	6.5-7.0	10	15	n.a.	100	not
2nd loan	20,000	19,726	19,726	-	-	06/26/69	1971-80	6.5	10	15	n.a.	300	not
3rd loan	30,000	29,125	29,125	-	2,789	05/17/71	1973-86	7.25	10	15	n.a.	500	not
4th loan	40,000	39,608	39,608	-	11,014	06/13/73	1975-87	7.25	10	15	n.a.	750	not
5th loan	55,000	54,879	54,879	-	27,333	07/23/75	1977-88	8.5	10.75-10.2	15	n.a.	2,000	not
6th loan	70,000	70,000	70,000	-	56,565	06/30/77	1980-94	8.2	10.6-10.2	15	n.a.	2,500	not
7th loan	100,000	100,000	99,938	-	90,344	12/07/78	1982-95	7.35	9.35	15	n.a.	4,000	not
8th loan	90,000	90,000	63,921	-	50,681	01/14/81	1984-94	9.25	11.25	13	10,000	5,000	not
ABD													
1st loan	30,000	29,892	29,892	-	9,919	09/02/74	1977-89	7.5-8.75	10	15	n.a.	750	not
2nd loan	40,000	37,896	37,896	-	22,671	08/12/76	1980-91	9.2	11.1-10.2	15	n.a.	1,500	not
3rd loan	50,000	49,518	49,288	-	44,816	12/13/79	1983-96	7.6	9.6	15	4,000	2,000	not
4th loan	60,000	60,000	8,766	-	4,662	11/16/81	1985-96	10.1	12.1	15	4,000	2,500	not
Commercial Caterpillar loan	5,000	79	79	-	-	03/15/69	1973-79	7.0	10	5	n.a.	-	tied
IFC loan	17,800	17,800	17,800	-	5,932	05/25/76	1978-84	A: 10.75 B: LIBOR+2% C: 9.95	Borrowing rate + 1.25%	10	n.a.	-	not
DEC loan	2,000	2,000	2,000	-	1,004	05/26/76	1978-86	10.25%	Borrowing rate + 1.25%	7	n.a.	-	not
APCO loan	20,000	20,000	20,000	-	8,276	09/13/77	1980-84	LIBOR+1.75%	Borrowing rate + 1.25%	10	n.a.	-	not
DEUTB loan	30,000	30,000	30,000	-	22,691	08/09/78	1981-88	LIBOR+0.875%	Borrowing rate + 1.25%	10	n.a.	-	not
IBJ loan	50,000	50,000	49,942	-	45,958	05/18/79	1982-89	LIBOR+0.75%	Borrowing rate + 1.25%	-	n.a.	-	not
KAF													
1st loan	40,000	40,000	35,313	-	31,409	07/21/80	1982-88	LIBOR+0.9375%	LIBOR + 2%	7	n.a.	-	not
2nd loan	30,000	30,000	32,723	-	32,060	07/09/81	1983-89	LIBOR+0.875%	LIBOR + 2%	7	-	-	-
3rd loan	30,000	30,000	29,587	-	26,323	12/28/81	1984-89	LIBOR+0.625%	LIBOR + 1.8%	8	-	-	-
ADB 1st Cofinancing (BOT)	50,000	50,000	40,420	-	39,154	12/29/81	1984-91	LTPR + 0.3%	LTPR + 1.4%	10	n.a.	-	not
2nd Cofinancing (IBJ)	25,000	25,000	20,652	-	10,944	07/22/82	1985-92	LTPR + 0.3%	LTPR + 1.4%	10	n.a.	-	not
Yosuda, Yen Loan	20,000	20,000	-	-	-	12/09/82	1985-92	A: LTPR + 0.2% B: LTPR + 0.3%	LTPR + 1.322%	10	n.a.	-	not
<b>Domestic Currency</b>													
Gov't loan	2,025	2,025	2,025	1,688		01/19/67	1977-2006	4%	-	-	-	-	-
KLB Long Term Debenture (Net proceeds)	-	-	227,367										

KOREA  
INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Issuance of KLB Debentures  
(W million)

Type of debenture	1980					1981					1982					Total 1980-82				
	Par	%	Net proceeds	%	Ratio of net proceeds (%)	Par	%	Net proceeds	%	Ratio of net proceeds (%)	Par	%	Net proceeds	%	Ratio of net proceeds (%)	Par	%	Net proceeds	%	Ratio of net proceeds (%)
<u>Discount Debenture</u>																				
1-year maturity	5,697.9	8.8	4,397.9	10.6	77.2	8,100.2	6.8	6,531.0	7.6	80.6	14,126.4	10.8	12,328.3	12.4	87.3	27,924.5	8.9	23,257.2	10.2	83.3
2-year maturity	16,115.8	24.9	9,657.2	23.2	59.9	36,331.9	30.3	23,465.8	27.2	64.6	15,923.9	12.2	11,457.1	11.5	71.9	68,371.6	21.7	44,580.1	19.6	65.2
3-year maturity	27,370.7	42.4	12,443.0	29.9	45.5	39,526.9	32.9	20,745.7	24.0	52.5	59,402.1	45.5	35,146.4	35.4	59.2	126,299.7	40.0	68,335.1	30.1	54.1
Subtotal	49,184.4	76.1	26,498.1	63.7	53.9	83,959.0	70.0	50,742.5	58.8	60.4	89,452.4	68.4	58,931.8	59.3	65.9	222,595.8	70.6	136,172.4	59.9	61.2
<u>Coupon Debenture</u>																				
2-year maturity	1,584.4	2.4	1,556.5	3.7	98.2	2,625.1	2.2	2,588.5	3.0	98.6	10,515.0	8.0	9,959.6	10.0	94.7	14,724.5	4.7	14,104.6	6.2	95.8
3-year maturity	2,380.3	3.7	2,340.0	5.6	98.3	2,011.6	1.7	1,985.9	2.3	98.7	651.7	0.5	643.4	0.6	98.7	5,043.6	1.6	4,969.3	2.2	98.5
5-year maturity	1,595.3	2.5	1,529.4	3.7	95.9	-	-	-	-	-	9.0	-	8.9	-	99.4	1,604.3	0.5	1,538.3	0.7	95.9
Subtotal	5,560.0	8.6	5,425.9	13.0	97.6	4,636.7	3.9	4,574.4	5.3	98.7	11,175.7	8.5	10,611.9	10.6	95.0	21,372.4	6.8	20,612.2	9.1	96.4
<u>Compound Debenture</u>																				
1-year maturity	-	-	-	-	-	-	-	-	-	-	5,175.6	4.0	5,175.6	5.2	100.0	5,175.6	1.6	5,175.6	2.2	100.0
2-year maturity	1,811.5	2.8	1,780.4	4.3	98.3	11,680.4	9.7	11,540.3	13.4	98.8	4,023.4	3.1	3,976.4	4.0	98.8	17,515.3	5.5	17,297.1	7.6	98.8
3-year maturity	8,044.1	12.5	7,899.6	19.0	98.2	19,723.9	16.4	19,470.4	22.5	98.7	20,971.4	16.0	20,739.8	20.8	98.9	48,739.4	15.5	48,109.8	21.2	98.7
Subtotal	9,855.6	15.3	9,680.0	23.3	98.2	31,404.3	26.1	31,010.7	35.9	98.7	30,170.4	23.1	29,891.8	30.0	99.1	71,430.3	22.6	70,582.5	31.0	98.8
Total	64,600.0	100.0	41,604.0	100.0	64.4	120,000.0	100.0	86,327.6	100.0	71.9	130,798.5	100.0	99,435.5	100.0	76.0	315,398.5	100.0	227,367.1	100.0	72.1

AEPID  
February 1983

KOREA  
INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Statement of Resources

	As of Dec. 31, 1981	As of Dec. 31, 1982
<u>Local Currency Resources (W million)</u>		
Share capital	50,000	50,000
Reserves and retained earnings	12,490/a	18,743
Net stockholders equity	62,490	68,743
Government subordinated loan	1,721	1,654
Issuance of KLB debentures	147,077	264,693
Deposits received	14,104	16,318
Add-back: Noncash charges (depreciation, provisions, etc.)	7,433	9,070
<u>Total Local Currency Resources</u>	<u>232,825</u>	<u>360,478</u>
Less: Local currency loans outstanding	166,879	221,480
Bonds and debentures outstanding	30,650	27,328
Equity investments	7,273	7,554
Fixed assets (at cost)	3,100	6,089
Deferred assets	477	694
Reserves at BOK	1,606	1,691
Short-term loan financing	6,248	9,814
Subtotal	<u>216,203</u>	<u>274,650</u>
Equals: Available for disbursement	16,622	85,828
Less : Undisbursed commitments	8,903	4,580
Equals: Available for commitment	7,719	81,248
Less : Uncommitted approvals	5,187	9,638
Local currency resources available for approval	2,532	71,610
<u>Foreign Currency Resources /b (\$'000)</u>		
IBRD loans	408,289	408,289
ADB loans	177,788	177,788
IFC loan	17,800	17,800
DEG loan	2,000	2,000
AID and Caterpillar loans	2,971	2,971
APCO loan	20,000	20,000
DEUTB loan	30,000	30,000
IBJ loan	50,000	50,000
Bank loan	150,000	196,851
<u>Total Foreign Currency Resources</u>	<u>858,848</u>	<u>910,699</u>
Less : Total loans disbursed	644,806	776,704
Equals: Resources available for disbursement	214,042	133,995
Less : Undisbursed commitments	62,387	32,882
Equals: Resources available for commitment	151,655	101,113
Less : Uncommitted approvals	62,474	20,127/d
Foreign currency resources available for approval	89,181	80,986
<u>Total Resources /c (EW million)</u>		
Total resources	836,337	1,044,140
Available for disbursement	167,029	186,418
Available for commitment	114,287	157,154
Available for approval	65,199	132,406

/a After deducting 1981 cash dividend (W 8,250 million).

/b \$25,000,000 of ADB Co-Financing credit lines were included in 1982.

/c Exchange rate applied: US\$1 = W 702.70 (1981), US\$1 = W 750.70 (1982).

/d Included are \$7,800,000 under IBRD 1932-KO and \$3,700,000 under ADB 530 KDR for Chief Sugar Mfg. Co. which have been approved by KNB, but which are pending IBRD and ADB approval.

KOREA

INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Projected Operations, 1983-87

	Actual 1982	1983	1984	1985	1986	1987	Total 1983-87
<u>Approvals</u>							
Domestic currency (W million)							
Loan and debenture	124,393	140,000	218,000	290,000	362,000	455,000	1,465,000
Equity investment	1,500	2,000	2,000	3,000	3,000	4,000	14,000
Subtotal	<u>125,893</u>	<u>142,000</u>	<u>220,000</u>	<u>293,000</u>	<u>365,000</u>	<u>459,000</u>	<u>1,479,000</u>
Foreign currency loan (\$'000)	65,464	180,000	198,000	218,000	240,000	264,000	1,100,000
Total (US\$'000 equiv.)	<u>233,321</u>	<u>369,300</u>	<u>491,300</u>	<u>608,700</u>	<u>726,700</u>	<u>876,000</u>	<u>3,072,000</u>
<u>Commitments</u>							
Domestic currency (W million)							
Loan and debenture	119,942	138,400	213,200	282,700	349,100	430,000	1,413,400
Equity investment	1,500	2,000	2,000	3,000	3,000	4,000	14,000
Subtotal	<u>121,442</u>	<u>140,400</u>	<u>215,200</u>	<u>285,700</u>	<u>352,100</u>	<u>434,000</u>	<u>1,427,400</u>
Foreign currency loan (\$'000)	107,804	128,000	185,000	198,000	230,000	249,000	990,000
Total (US\$'000 equiv.)	<u>269,727</u>	<u>315,200</u>	<u>471,900</u>	<u>578,900</u>	<u>699,500</u>	<u>827,700</u>	<u>2,893,200</u>
<u>Disbursements</u>							
Domestic currency (W million)							
Loan and debenture	124,765	136,100	209,500	275,600	337,200	425,100	1,383,500
Equity investment	1,000	2,000	2,000	3,000	3,000	4,000	14,000
Subtotal	<u>125,765</u>	<u>138,100</u>	<u>211,500</u>	<u>278,600</u>	<u>340,200</u>	<u>429,100</u>	<u>1,397,500</u>
Foreign currency loan (\$'000)	139,682	121,000	177,000	193,000	224,000	244,000	959,000
Total (US\$'000 equiv.)	<u>307,387</u>	<u>305,100</u>	<u>459,000</u>	<u>564,500</u>	<u>677,600</u>	<u>816,100</u>	<u>2,822,300</u>

KOREA

INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Resource Mobilization Program, 1983-87 /a

	Actual 1982	1983	1984	1985	1986	1987	Total 1983-87
<u>Local Currency (in Won million)</u>							
KLB debenture issue (at face value)	130,799	180,000	240,000	300,000	360,000	420,000	1,500,000
<u>Foreign Currency (in US\$ '000) /b</u>							
IBRD loan	-	140,000	-	-	-	-	140,000
ADB loan	-	70,000	-	-	-	-	70,000
Bank loan	45,000	50,000	160,000	110,000	120,000	130,000	570,000
Unidentified official loan	-	-	-	100,000	100,000	100,000	300,000
Subtotal	<u>45,000</u>	<u>260,000</u>	<u>160,000</u>	<u>210,000</u>	<u>220,000</u>	<u>230,000</u>	<u>1,080,000</u>
Total (in W million)	<u>164,549</u>	<u>375,000</u>	<u>360,000</u>	<u>457,500</u>	<u>525,000</u>	<u>592,500</u>	<u>2,310,000</u>
(in US\$ '000)	<u>219,399</u>	<u>500,000</u>	<u>480,000</u>	<u>610,000</u>	<u>700,000</u>	<u>790,000</u>	<u>3,080,000</u>

/a Excluding deposit-taking resource.

/b On loan negotiation basis.

KOREA  
INDUSTRIAL FINANCE PROJECTKorea Long-Term Credit Bank  
Projected Balance Sheets, 1983-87  
(Won million)

	Actual 1982	1983	1984	1985	1986	1987
<b>Assets</b>						
Current assets						
Cash and bank deposits	14,966	16,000	16,500	17,000	17,500	18,000
Marketable securities	88,637	98,225	113,982	122,381	145,272	133,865
Short-term loans	9,814	12,414	15,914	22,914	29,914	40,414
Revolving fund loans	8,357	9,581	13,025	16,786	18,975	20,307
Accrued interest receivables and others	17,458	17,684	19,267	21,500	24,335	27,458
Allowance for losses	(1,580)	(2,188)	(2,970)	(3,520)	(4,450)	(5,600)
Current portion of loans and debentures	121,982	179,144	248,402	290,051	371,957	469,630
Customers' acceptance liability	6,779	8,100	9,700	11,700	14,000	16,800
Other current assets	1,740	1,740	1,740	1,740	1,740	1,740
Subtotal	268,153	345,416	440,289	505,831	625,072	729,273
Long-term assets						
Domestic currency loans and debentures	248,808	319,147	408,446	498,054	613,388	753,755
Foreign currency loans	400,740	422,679	483,357	549,187	628,021	699,092
Equity investment	7,554	9,554	11,554	14,554	17,554	21,554
Less: Allowance for losses	(5,280)	(5,830)	(6,640)	(7,780)	(9,100)	(10,250)
Less: Current portion of long-term assets	(121,982)	(179,144)	(248,402)	(290,051)	(371,957)	(469,630)
Net Long-Term Assets	529,840	566,406	648,315	763,964	877,906	1,003,521
Fixed assets (net)	5,130	10,841	13,453	16,026	18,443	20,775
Deferred assets and others	694	1,005	1,365	1,721	2,108	2,481
Total Assets	803,817	923,668	1,103,422	1,287,512	1,523,529	1,756,050
<b>Liabilities and Equity</b>						
Liabilities						
Current liabilities						
Deposit liabilities	17,007	20,689	25,689	35,089	45,689	60,689
Short-term borrowings	6,296	6,296	6,296	6,296	6,296	6,296
Accrued interest payable	11,410	10,814	12,541	15,190	18,343	20,961
Income taxes payable	726	2,008	2,908	2,875	3,889	4,462
Interest received in advance and others	16,564	17,360	19,679	21,652	24,534	27,411
Current portion of long-term debt	157,681	210,678	280,047	315,859	401,413	479,461
Acceptances outstanding	6,779	8,400	9,700	11,700	14,000	16,800
Subtotal	216,463	275,909	356,860	409,261	514,164	616,080
Long-term liabilities						
Domestic currency borrowings	1,654	1,586	1,519	1,451	1,384	1,316
Foreign currency borrowings	404,693	426,988	491,569	560,535	640,935	711,994
KLB debenture						
Outstanding of KLB debenture issue	282,561	354,354	448,629	540,009	666,009	792,000
Less: Discount on KLB debenture	(39,171)	(31,295)	(31,698)	(39,554)	(48,266)	(56,977)
Accrued interest on compound debenture	21,303	27,401	31,506	39,567	50,321	61,075
Net KLB Debenture Outstanding	264,693	350,460	448,437	540,022	668,064	796,098
Employees' severance liability	1,252	1,655	2,069	2,586	3,233	4,041
Less: Current portion of long-term debt	(157,681)	(210,678)	(280,047)	(315,859)	(401,413)	(479,461)
Net Long-Term Liabilities	514,611	570,011	663,547	788,735	912,203	1,033,988
Equity						
Share capital	50,000	50,000	50,000	50,000	50,000	50,000
Reserves and unappropriated surplus	22,743	27,748	33,015	39,516	47,162	55,982 <sup>b</sup>
Subtotal	72,743	77,748	83,015	89,516	97,162	105,982
Total Liabilities and Equity	803,817	923,668	1,103,422	1,287,512	1,523,529	1,756,050
Current ratio	1.24	1.25	1.23	1.24	1.22	1.18
Long-term debt/equity ratio	8.97	9.32	10.47	11.30	12.37 <sup>a</sup>	13.05

<sup>a</sup> Debt/equity ratio exceeds 12:1 in 1986.<sup>b</sup> Reserves level reaches the amount of paid-in capital in 1987, and accordingly a share capital increase may be considered in 1988.

KOREA  
INDUSTRIAL FINANCE PROJECT

## Korea Long-Term Credit Bank

Projected Income Statements, 1983-87  
(Won million)

	Actual 1982	1983	1984	1985	1986	1987
<u>Income</u>						
Interest and commitment fee on long-term loans						
Domestic currency loans and debentures	48,583	51,674	57,042	64,088	80,154	96,364
Foreign currency loans	47,181	45,196	52,197	61,880	70,894	80,193
Commitment fee	1,728	1,312	1,299	1,280	1,484	1,340
Subtotal	97,492	98,182	110,538	127,248	152,532	177,897
Dividend and gains from disposition of equity investment	2,457	1,840	1,990	1,730	2,060	2,400
Interest on short-term loans	801	1,100	1,410	1,940	2,640	3,510
Income from reserve fund	10,473	14,155	15,661	17,097	18,807	23,140
Income from foreign exchange transaction and others	2,157	1,649	883	1,019	1,205	1,371
Total Income	113,375	116,926	130,482	149,034	177,244	208,318
<u>Expenses</u>						
Interest on borrowings						
Government-subordinated loan	68	65	62	59	57	54
Foreign currency borrowing	41,098	38,221	44,090	52,495	60,327	68,497
Subtotal	41,166	38,286	44,152	52,554	60,334	68,551
Expenses on KLB debenture						
Interest on coupon debenture	17,680	25,739	29,471	35,063	45,305	55,065
Amortization of discount on discount debenture	30,964	28,801	27,497	27,019	33,138	40,114
Subtotal	48,644	54,540	56,968	62,082	78,443	95,179
Interest on deposits	1,461	1,680	1,460	1,920	2,540	3,320
Commitment charges	1,207	823	1,224	1,226	1,474	1,642
G&A expenses						
Personnel expenses	2,669	3,211	3,834	4,637	5,677	6,888
Nonpersonnel expenses	1,849	2,528	3,118	3,757	4,533	5,528
Subtotal	4,518	5,739	6,952	8,394	10,210	12,416
Provision for losses	1,298	1,158	1,592	1,690	2,250	2,300
Contribution to Korea Credit Guarantee Fund	811	1,224	1,667	2,246/a	-	-
Taxes and charges	546	580	680	770	910	1,090
Amortization of deferred assets and others	1,592	809	1,120	1,484	1,853	2,227
Total Expenses	101,243	104,839	115,815	132,366	158,084	186,725
Net Income Before Tax	12,132	12,087	14,667	16,668	19,160	21,593
Provision for corporation income tax	2,070	3,082	4,400	5,167	6,514	7,773
Net Income After Tax	10,062	9,005	10,267	11,501	12,646	13,820

/a Legal requirement for contribution to KCGF expires in 1985 year-end.



KOREA  
INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Projected Cash Flow Statements, 1983-87  
(Won million)

	Actual 1982	1983	1984	1985	1986	1987
<u>Sources</u>						
Internal cash generation						
Net income	10,253	9,005	10,267	11,501	12,646	13,820
Depreciation	183	289	388	457	553	668
Provision for losses	1,010	550	810	1,140	1,320	1,150
Provision for employees' severance liabilities	448	503	534	657	817	1,008
Amortization of deferred assets	491	809	1,120	1,484	1,853	2,227
Amortization of discount on KLB debenture	30,964	28,801	27,497	27,019	33,138	40,114
Accrued interest on compound debenture	14,088	6,098/a	4,105	8,061	10,754	10,754
Subtotal	<u>57,437</u>	<u>46,055</u>	<u>44,721</u>	<u>50,319</u>	<u>61,081</u>	<u>69,741</u>
Issuance of KLB debenture	130,799	180,000	240,000	300,000	360,000	420,000
Drawdown of foreign currency borrowings	108,907	69,417	119,642	128,250	147,000	158,250
Collection						
Domestic currency loans, debentures and investments	74,206	65,764	120,180	185,982	221,885	284,778
Foreign currency loans	34,145	56,218	58,964	62,420	68,166	87,179
Subtotal	<u>108,351</u>	<u>121,982</u>	<u>179,144</u>	<u>248,402</u>	<u>290,051</u>	<u>371,957</u>
Increase in current portion of loans and debentures	14,839	57,162	69,258	41,649	81,906	88,673
<u>Total Sources</u>	<u>420,333</u>	<u>474,616</u>	<u>652,765</u>	<u>768,620</u>	<u>940,038</u>	<u>1,108,621</u>
<u>Uses</u>						
Disbursements						
Domestic currency loans and debentures	124,765	136,103	209,479	275,590	337,219	425,145
Equity investments	1,000	2,000	2,000	3,000	3,000	4,000
Foreign currency loans	99,015	78,157	119,642	128,250	147,000	158,250
Subtotal	<u>224,780</u>	<u>216,260</u>	<u>331,121</u>	<u>406,840</u>	<u>487,219</u>	<u>587,395</u>
Repayment						
Domestic currency borrowings	67	68	67	68	67	68
Foreign currency borrowings	45,386	47,122	55,061	59,284	66,600	87,191
KLB debenture	27,142	108,207	145,725	208,620	234,000	294,009
Subtotal	<u>72,595</u>	<u>155,397</u>	<u>200,853</u>	<u>267,972</u>	<u>300,667</u>	<u>381,268</u>
Increase in fixed assets (net)	2,989	6,000	3,000	3,000	3,000	3,000
Payment of dividend	8,250	4,000	5,000	5,000	5,000	5,000
Employees' severance pay	284	100	120	140	170	200
Increase in discount on KLB debenture	31,093	20,925	27,900	34,875	41,850	48,825
Increase in deferred assets and others	738	1,120	1,480	1,840	2,240	2,600
Increase in current portion of long-term debt	89,704	52,997	69,369	35,812	85,554	78,048
Increase (decrease) in working capital	(10,100)	17,817	13,922	13,141	14,338	2,285
<u>Total Uses</u>	<u>420,333</u>	<u>474,616</u>	<u>652,765</u>	<u>768,620</u>	<u>940,038</u>	<u>1,108,621</u>

/a Level of accrued interest on compound debenture falls by more than half in 1983, reflecting large redemption of high interest-bearing debentures during the year.

Note: Revolving fund loan is excluded from long-term assets.

AEPID

February 1983

KOREA

INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Projected Ratio Analysis, 1983-87  
(%)

	Actual 1982	1983	1984	1985	1986	1987
1. Income from term loans/average term loan portfolio	16.3	13.9	13.3	12.9	13.1	13.0
2. Cost of term debt/average term debt	15.6	12.8	11.8	11.3	11.6	11.7
3. Earning spread (1-2)	0.7	1.1	1.5	1.6	1.5	1.3
4. Income from all portfolio/all average portfolio	16.2	13.8	13.3	12.8	13.0	12.9
5. Financial expenses/average terms debt and equity	14.5	12.2	11.3	10.8	11.1	11.2
6. Earning spread (4-5)	1.7	1.6	2.0	2.0	1.9	1.7
7. Income from FX loan/average FX loan portfolio	12.7	11.1	11.5	11.9	11.9	11.9
8. Cost of FX term debt/average FX term debt	11.2	9.2	9.7	10.1	10.2	10.3
9. Earning spread on FX loan portfolio (7-8)	1.5	1.9	1.8	1.8	1.7	1.6
10. Income from all domestic currency portfolio/all average domestic currency portfolio	21.9	17.8	15.4	13.9	14.2	13.9
11. Domestic financial expenses/average domestic term debt and equity	18.9	15.5	12.9	11.5	11.9	12.0
12. Earning spread on domestic currency portfolio (10-11)	3.0	2.3	2.5	2.4	2.3	1.9
13. G&A expenses/average term debt and equity	0.7	0.7	0.7	0.8	0.8	0.8
14. G&A expenses/average total assets	0.6	0.7	0.7	0.7	0.7	0.8
15. Provision for doubtful loans/loan and investment	1.0	1.0	1.0	1.0	1.0	1.0
16. Return on total assets (before income tax)	1.5	1.3	1.3	1.3	1.3	1.2
17. Return on total assets (after income tax)	1.3	1.0	0.9	0.9	0.8	0.8
18. Earnings per share	20.1	18.0	20.5	23.0	25.3	27.6
19. Cash dividend ratio	8.0	10.0	10.0	10.0	10.0	10.0
20. Payout ratio (cash dividend/net income)	39.8	55.5	48.7	43.5	39.5	36.2
21. Interest coverage ratio	1.13	1.12	1.15	1.15	1.14	1.05
22. Debt service coverage ratio	1.51	1.05	1.07	1.07	1.11	1.10
23. Indebtedness and undisbursed commitment/equity	9.48	10.48	11.81	12.89	14.21	15.01

KOREA

INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank

Statement of Investment and Operational Policies

Approved at the Board of Directors' Meeting: April 25, 1967  
Amended at the Board of Directors' Meeting : February 29, 1968  
Amended at the Board of Directors' Meeting : February 26, 1973  
Amended at the Board of Directors' Meeting : February 26, 1974  
Amended at the Board of Directors' Meeting : December 17, 1974  
Amended at the Board of Directors' Meeting : June 19, 1975  
Amended at the Board of Directors' Meeting : July 23, 1976  
Amended at the Board of Directors' Meeting : June 11, 1977  
Amended at the Board of Directors' Meeting : January 31, 1979  
Amended at the Board of Directors' Meeting : June 2, 1980  
Amended at the Board of Directors' Meeting : December 15, 1981

Korea Long-Term Credit Bank (KLB), whose object is to promote the expansion of private enterprise in the Republic of Korea, will be guided by the policies set forth below:

I. The Scope of Investment Activities

1. KLB will invest in productive enterprise. While its primary investment activity will be in manufacturing and processing industries, it may invest also in other types of enterprises, including transport, tourism, and commercially-oriented agriculture.
2. KLB will finance private enterprises which are properly organized and managed. KLB will not, in principle, invest in undertakings which are Government-owned and operated, but a Government holding of not more than 50% of the voting stock of a private enterprise shall not make such enterprise ineligible for financial assistance from KLB. KLB will finance both new enterprises and existing ones for expansion or improvement.
3. In its operations, KLB will give due regard to the Government's general economic plans and policies. The following categories of industries will receive high priority, in accordance with the Government's economic policies and objectives:

- (a) Export- and import-substitute industries;
- (b) Industries contributing to the deepening of industrial structure;

- (c) Industries which contribute to balanced regional development, and have greater potential for employment creation;
  - (d) Natural resource development industries, domestic as well as foreign; and
  - (e) Industries promoting international economic cooperation.
4. KLB will assist private enterprises in the following ways:
- (a) Medium- and long-term loans;
  - (b) Equity participation (through underwriting, conversion rights, direct participation in share capital or otherwise);
  - (c) Guarantee of payment for machinery and equipment imported or otherwise;
  - (d) Guarantee and underwriting of corporate securities;
  - (e) Technical, managerial and other financial advice and services;
  - (f) Foreign exchange operations; and
  - (g) Any other appropriate manner.
5. KLB will seek through its operation to broaden the ownership of private securities in Korea.
6. KLB's financial assistance will be primarily for expenditures for fixed assets. KLB will also extend working capital loans to enterprises.
7. KLB will study periodically the trend of overall industrial development and investment opportunities in the private sector in cooperation with research institutes for promotion of new enterprises or expansion of the existing ones.

## II. Basis for Investment Decision

8. KLB will make investment decisions only on the basis of sound investment criteria and standards, and will provide financial assistance only to those projects which are financially and economically sound and technically feasible. Special attention will be given to the ability of management and the profitability of the enterprise.
9. KLB will ensure that the funds provided to the enterprises are properly used in accordance with the purpose of such financing. KLB will require its borrower, if it is deemed necessary, to purchase the equipments through international competitive bidding or other appropriate method when such equipment is procured with the proceeds of an official loan.

### III. Diversification of Portfolio

10. KLB will diversify its portfolio in order to maintain a reasonable level of risk.

11. KLB will not provide financial assistance of less than the equivalent of \$50,000 for the purpose of capital expenditure. The maximum financial commitment in whatever form, including loan, share capital or guarantee or any combination thereof, that KLB may make to any single enterprise will not normally exceed 25% of the total of KLB's paid-in capital and free reserves.

12. KLB will not commit to any single enterprise in form of share capital more than 10% of KLB's paid-in capital and free reserves. The aggregate equity investment of KLB at any time will not exceed the total of its paid-in share capital and free reserves.

13. In undertaking large-size projects, KLB will seek cooperation with other financial institutions, both domestic and foreign.

### IV. Turn-Over of Portfolio

14. In order to recover its resources for new commitments and to encourage widespread ownership of private securities, KLB will revolve its portfolio whenever it can do so on satisfactory terms. In selling an investment it will pay due regard not only to its own interest but also to the interest of other participants in such investment, as also to the interest of the concern whose shares are involved.

### V. Relationship with Enterprise Financed

15. Normally, KLB will not take a controlling interest in any enterprise in which it has invested, or other interest which would give it primary responsibility for management and it also will not acquire more than 25% of the share capital of an enterprise.

16. In accordance with normal banking practice, KLB will require its borrowers to provide and to maintain adequate security, to keep records and accounts in accordance with sound accounting practices, and to furnish whatever information on their operations and accounts KLB deems desirable. KLB will take the right to inspect the enterprises it finances as well as their operations and accounts.

17. Business secrets and other information furnished by applicants or clients will be treated as confidential.

VI. Financial Guidelines

18. KLB will lend and invest its resources in such a way as to maintain the value of its capital. KLB will pass to its clients any foreign exchange risk it assumes or find other suitable means to cover it.

19. KLB will not incur any debt in excess of ten times the aggregate of its paid-in capital and free reserves.

20. KLB will maintain accounting records adequate to reflect its business operations in accordance with sound and generally accepted international accounting practices and standards. KLB will employ qualified and independent public accountants to audit its books and certify the accounts annually.

VII. Profits and Their Distribution

21. KLB will seek to develop earnings sufficient to cover expenses and taxes, to provide reserves adequate to the size and risks of its portfolio and to protect its equity against erosion and to pay satisfactory dividends. It will seek profits on its equity investments and will impose interest rates, fees and other charges for its loans and services which will permit it to achieve that level of profitability. It will build and maintain reserves consistent with sound financial management. It will set aside each year from net income before tax the amount required by law as the legal reserve. In addition, it will accumulate other reserves, including reserve for losses, as considered prudent by the Board of Directors.

VIII. Staff

22. KLB will build up a technically qualified staff capable of carrying the responsibilities which KLB's objectives create, and able to provide the services to clients which those objectives call for.

IV. Revision of Policies

23. Any proposal to revise this Statement of Investment and Operational Policies shall be considered by the Board of Directors only after each member has been given an adequate opportunity to study and comment on the proposal, and it shall be approved at a meeting of the Board of Directors by two-thirds of all directors.

KOREA

INDUSTRIAL FINANCE PROJECT

Korea Long-Term Credit Bank  
Development Strategy 1983-1984

In line with the Governmental policy to liberalize the financial sector, the competition among financial institutions in Korea is expected to grow substantially in the future. In specific, such Governmental measures as (a) the gradual eclipse of controls on financial sector, (b) privatization of commercial banks, (c) licensing of new commercial banks, and (d) expansion of non-bank financial institutions are expected to enhance the competition. Accordingly, KLB's Development Strategy for 1983-84 is focused on equipping itself with the capability to effectively cope with the increasing competition.

I. Expansion of Business Scope

The Bank will continue its efforts to diversify its services through expansion of business scope. To this end, KLB will pay particular attention to the following aspects:

- (a) expansion of services through its existing business lines, especially those newly developed ones such as:
  - (i) mortgage bond trust business
  - (ii) securities lending business
- (b) expansion of business lines through development of new financial products under the present legal framework, such as debenture installment savings scheme.
- (c) expansion of legal base as a full-fledged bank through revision of the Long-Term Credit Bank (LTCB) Act.

II. Resource Mobilization

a. Issuance of debentures

KLB will endeavor to expand its local currency resources by continuously increasing the issuance of debentures. Also, the Bank will continue its efforts to develop new financial instruments such as the pre-redeemable debentures, floating rate debentures, and installment purchase debentures. KLB plans to issue W 180 billion in face value in 1983 and W 240 billion in 1984.

b. Inducement of short-term savings

The Bank will continue to expand its short-term local currency resources by actively inducing deposits, for which KLB plans to mobilize W 25 billion by the end of 1984 on an outstanding balance basis.

c. Mobilization of foreign exchange resources

The Bank plans to raise a total of US\$420 million during the strategy period. KLB will continuously expand tapping commercial capital market to supplement its foreign exchange resources in addition to its official resources.

d. Providing longer-term loans

KLB will endeavor to develop attractive longer term instruments through continuously study on the Korean capital market. In line with the mobilization of longer-term local currency resources, KLB will continue its efforts to lengthen the maturity of its local currency loans so as to meet the increasing demand for longer term local currency loans.

III. Resource Allocation

a. Integrated financial services

KLB will endeavor to provide integrated financial services to its clients. So far, KLB's financial assistance to its clients has been rather simple; however, in line with the expansion of its business scope, the bank will provide integrated financial services to its clients so as to expand further the width and depth of its clientele.

b. Reinforcement of developmental role

KLB will continue to pursue its developmental roles by enlarging strategic investment in private industries which are conducive to deepening of industrial structure, enhancing of competitiveness in export markets, and to technology development.

c. Assistance to small and medium industry

KLB will continue to give due attention to the fostering of small and medium industry (SMI). To this end, the Bank will maintain its policy to provide, in principle, more than 20% of its total incremental financing to SMI.



#### IV. Branch Network

##### a. Basic direction

KLB will continue to pursue wholesale banking and accordingly it would not increase branches as fast as commercial banks do. Nonetheless, KLB plans to have a nationwide branch network by establishing one branch in each of the nation's major cities. In addition, the Bank will continue to open new subbranches in relation to its promotion of debenture sales.

##### b. Expansion plan for 1983-84

KLB plans to establish additional subbranches in Seoul area in 1983 and a branch in local city in 1984 so as to effectively serve its clients through a wider geographical coverage. The Bank will expand branch network in coming years as its business expands and its staff accumulate relevant expertise.

#### V. Organizational Development

##### a. Business Promotion Center

In an attempt to inject vitality into its business activities, the Bank established the Business Promotion Center in October 1982. As the Center proved to be conducive to marketing of both debentures and loans, KLB plans to embody the Center into its organization.

##### b. Personnel management

KLB will make best efforts not only to recruit high quality staff, but also to train its personnel, through implementation of effective personnel training. Especially, KLB will endeavor to enhance the role of the middle management and their professionalism including female junior officers, through adequate training.

##### c. Computerization

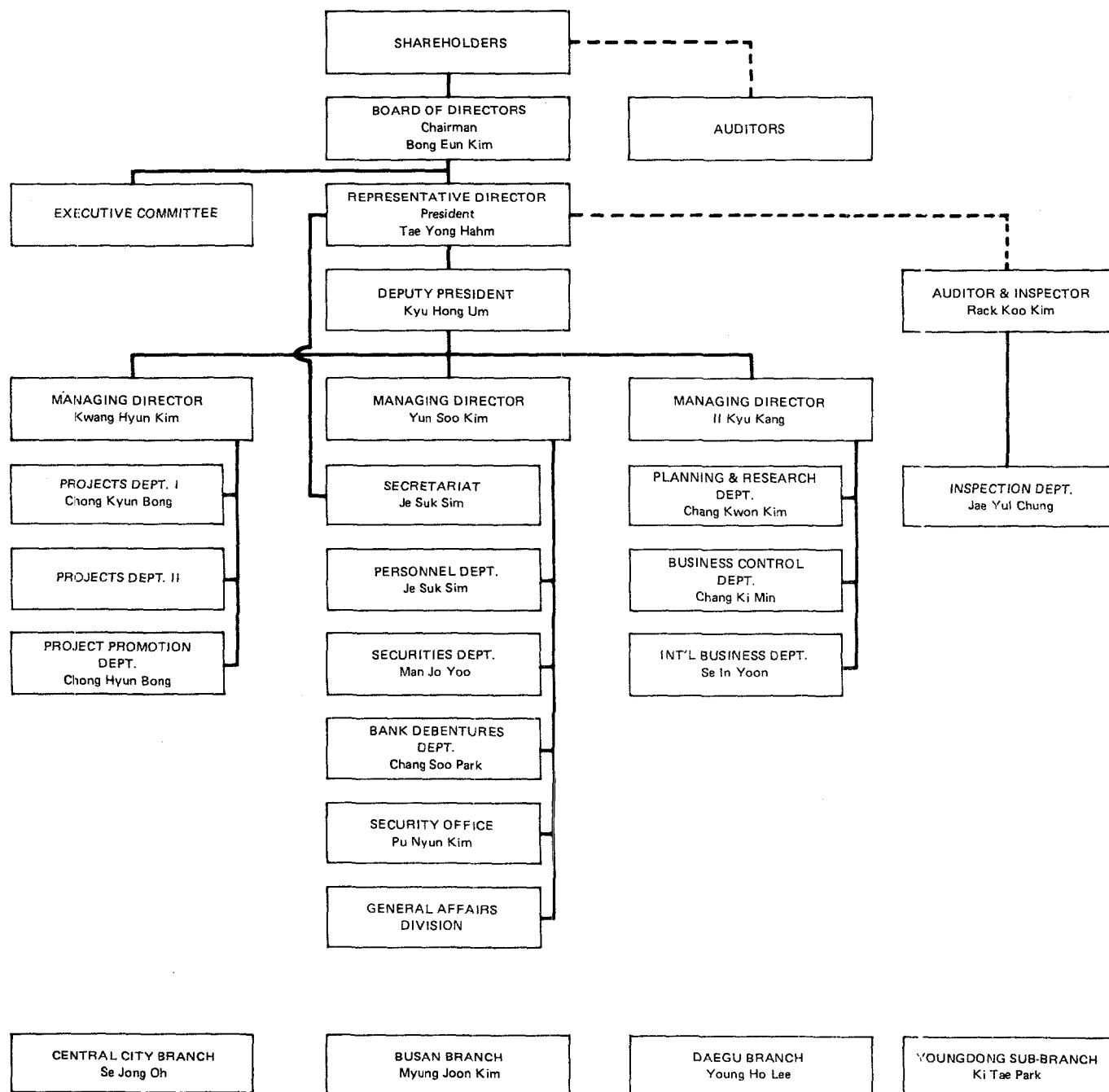
The Bank is now in the process of computerization of its operational data with the goal of eventually attaining a management information system (MIS) in the future. During the strategy period, the Bank will be equipped with the on-line system for its debenture operations.

#### VI. Public Relations

KLB will continue to enhance its image as a private development bank, which recognizes its social responsibility. In this vein, KLB will:

- (a) hold seminars on the techniques of project feasibility analysis for managerial staffs of its client companies;
- (b) hold the monthly discussssion sessions with the executives of its client companies for betterment of mutual understanding as well as for exchange of business information; and
- (c) provide industrial and managerial information to its clients through activities of its Business Promotion Center.

**KOREA**  
**KOREA LONG-TERM CREDIT BANK**  
**Organization Chart**  
**(As of September 30, 1982)**



KOREA  
INDUSTRIAL FINANCE PROJECT

Estimated Commitments and Disbursements of Proposed Loan /a  
(in \$ million)

Fiscal year and quarter	Training				Computerization				KDB				KLB				Total			
	Commitments		Disbursements		Commitments		Disbursements		Commitments		Disbursements		Commitments		Disbursements		Commitments		Disbursements	
	Amount	%/b	Amount	%/b	Amount	%/b	Amount	%/b	Amount	%/b	Amount	%/b	Amount	%/b	Amount	%/b	Amount	%/b	Amount	%/b
<b>FY84</b>																				
Oct-Dec 1983	0.3	12	-	-	2.0	80	1.5	60	13.0	10	-	-	11.0	9	-	-	26.3	10	1.5	1
Jan-Mar 1984	0.5	32	0.3	12	0.5	100	1.0	100	15.0	22	5.0	4	13.0	20	5.0	4	29.0	22	11.3	5
Apr-Jun 1984	0.7	60	0.5	32	-	-	-	-	17.0	35	11.0	12	15.0	33	9.0	12	32.7	35	20.5	13
<b>FY85</b>																				
Jul-Sep 1984	0.7	88	0.7	60	-	-	-	-	17.0	48	13.0	22	15.0	45	12.0	22	32.7	47	25.7	23
Oct-Dec 1984	0.3	100	0.7	88	-	-	-	-	17.0	61	15.0	34	15.0	58	15.0	34	32.3	60	30.7	35
Jan-Mar 1985	-	-	0.3	100	-	-	-	-	15.0	72	18.0	48	15.0	70	17.0	48	30.0	72	35.3	49
Apr-Jun 1985	-	-	-	-	-	-	-	-	15.0	84	17.0	61	13.0	81	15.0	61	28.0	83	32.0	62
<b>FY86</b>																				
Jul-Sep 1985	-	-	-	-	-	-	-	-	13.0	94	16.0	73	12.0	81	15.0	73	25.0	93	31.0	74
Oct-Dec 1985	-	-	-	-	-	-	-	-	8.0	100	13.0	83	11.0	100	12.0	83	19.0	100	25.0	84
Jan-Mar 1986	-	-	-	-	-	-	-	-	-	-	9.0	90	-	-	8.0	90	-	-	17.0	90
Apr-Jun 1986	-	-	-	-	-	-	-	-	-	-	7.0	95	-	-	6.0	95	-	-	13.0	95
<b>FY87</b>																				
Jul-Sep 1986	-	-	-	-	-	-	-	-	-	-	3.0	98	-	-	3.0	98	-	-	6.0	98
Oct-Dec 1986	-	-	-	-	-	-	-	-	-	-	3.0	100	-	-	3.0	100	-	-	6.0	100
<b>Total</b>	<b>2.5</b>	<b>100</b>	<b>2.5</b>	<b>100</b>	<b>2.5</b>	<b>100</b>	<b>2.5</b>	<b>100</b>	<b>130.0</b>	<b>100</b>	<b>130.0</b>	<b>100</b>	<b>120.0</b>	<b>100</b>	<b>120.0</b>	<b>100</b>	<b>255.0</b>	<b>100</b>	<b>255.0</b>	<b>100</b>

/a Assuming the proposed loan becomes effective about end August 1983.

/b Percentages are cumulative.

AEP Projects  
June 1, 1983

KOREA

INDUSTRIAL FINANCE PROJECT

Selected Data and Documents Available in the Project File

A. Selected Sector Reports

1. Memos (3) of Frank A.J. Veneroso (consultant) regarding Korean Corporate Indebtedness dated 10/27/82, 12/06/82, 01/11/83.
2. Interest Rate Structure in Korea, May 14, 1982 prepared by consultants to Bank's June 1982 Financial Sector Mission
3. Study on Capital Structure of Korean Firms, prepared by consultants to Bank's June 1982 Financial Sector Mission
4. Review of Regulations, Guidelines and Operational Procedures in Banking Practice, MOF
5. Government's View on a Financial Liberalization Policy Package, January 27, 1983
6. Reform Proposals of Foreign Bankers
7. Study of Corporate Finance - Federation of Korean Industries (FKI)
8. Bank Supervision in Korea - Office of Bank Supervision and Examination, Bank of Korea
9. Appraisal and Improvement of the National Investment Fund System, December 1981, Bank of Korea
10. Questionnaire & Answers on Financial Sector Reforms, February 1982, MOF

B. Selected Reports and Studies Relating to Project

1. Functional Improvement for Revitalization of KDB
2. Preimplementation Study of Overseas Training Plan, April 1983, KBI

C. Selected Working Papers, Tables Prepared by Bank Staff

Korea Development Bank (KDB)

1. Draft Detailed Review of KDB
2. Foreign Commercial Borrowing Plan of KDB
3. Share of KDB's Disbursements in Fixed Investment 1977-81
4. Government Directed Schemes Administered by KDB
5. Professional Staffing Position
6. Trend of Interest Rate Structure
7. Operational Program for 1983

Korea Long-Term Credit Bank (KLB)

8. Draft Detailed Review of KLB
9. Foreign Commercial Borrowing Plan of KLB
10. Weighted Average Spread on KLB Debenture Loans June 1980 - Dec. 1982
11. Weighted Average Funding Cost of KLB Debenture Issuance, Yield on Loans and Spread, June 1980 - December 1982
12. Sectoral Distribution of Loans and Investments Outstanding as of 12/31/82
13. Trend of Nominal Interest Rates of KLB's Debentures
14. Yield on Various Financial Instruments
15. Degree of Export Orientation of KLB's Approved Projects
16. Rescheduled Projects
17. Securities Business Performance
18. Repeated Loan, Investments and Debenture Purchases
19. Major Foreign Exchange Business Performance
20. Share of KLB's Disbursements in Fixed Investment

Training

- 21. Detailed Review of Training Component
- 22. Foreign Training by Nationwide City Banks
- 23. Training by KBI
- 24. Key Training Data

Computerization

- 25. Report of Computer Advisor regarding Computerization Component